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# ***JPRS Report***

# **China**

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# China

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15 May 1991

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## GENERAL

### New Foreign Policy Trend in Post-Cold War Era

91CM0340A Hong Kong CHING PAO [THE MIRROR] in Chinese No 163, 10 Feb 91 pp 54-56

[Article by Huang Zhilian (7806 2655 6647), chief lecturer, Sociology Department, Hong Kong Baptist College, and director of the Hong Kong Asian-Pacific 21 Association: "China's Century-Spanning Diplomatic Problems"]

[Text] *China's diplomacy during the period immediately before and after the year 2000 will operate at the highest level to promote an open, plural, broad, and lively international situation. Large and small countries will be able to set their own programs as their national circumstances dictate, developing multilevel, multifaceted cooperative exchange activities on the basis of equality and mutual benefit.*

### Chinese Diplomacy Enters a New Stage

The decade of the 1990's might be said to be the beginning of a new stage in China's diplomatic activities and foreign policy.

In a certain sense, this "beginning" contains both an element of inevitability as well as an element of chance.

Let us speak first about the "element of chance" by which is meant the sanctions of Western capitalist countries against China at various levels and in the different fields of politics, economics, culture, and education that were set off by the 4 June incident. These sanctions seriously set back foreign relations, which had been thriving during the 1980's. As a result, the Chinese government was forced to make policy readjustments. Beginning in the summer of 1990, the orientation of activities, particularly diplomatic relations with the Third World, surged ahead for a time and major achievements were made. As a result, the West's sanctions against China seemed to lose their luster and were deprived of their anticipated force. One year later, the West changed course. It took the lead in repealing the sanctions for an all-around improvement in relations with China. This may have been spurred by the close relations displayed between Third World countries and China.

Now, let us take up the "inevitable element" in China's foreign relations entering a new stage. By this is meant that as a large developing country, or rather as a developing socialist country, China's foreign policy must make a "basic commitment" to the Third World.

Actually, the 4 June incident alone was not enough to force China's foreign relations into a new stage. In a certain sense, the "East European disturbances," which had something to do with it, as well as the "major evolution"—the conciliation between the two superpowers, the United States and the USSR—which gave

impetus to the "East European disturbances," were the major driving forces for the Chinese to "change course and strike out on a new path."

The situation was very clear. The end of the 1980's and the beginning of the 1990's (if one looks back after several decades) held important significance. One might say it was a historical turning point for mankind. By this is meant announcement of the dismantling of the cold war system by which the United States and the USSR dominated the world that was founded on the "Yalta Agreement," and which had endured since 1945. However, a new international political and economic pattern and order was yet to be built. Consequently, a transitional and highly ambiguous "post-cold war era" was entered, which was, in a certain sense, also a new era of "leaving Westernism."

### The Mission of China's Foreign Policy

Therefore, during the summer and autumn of 1989, China's foreign policy may still have been a purely "defensive policy," by which is meant gaining Third World political support to resist and cancel out Western countries' political and economic pressures, and even more to protect socialist ideology and its organizational system during the "East European disturbances." However, circumstances produced pressures. With the advent of the 1990's, a fundamental challenge was being faced, namely meeting the "post-cold war period." China had to make some headway—sudden headway—at all levels and in all regards in its domestic and foreign relations ideas, theories, orientation, policies, and organization, as well as in its specific ways of doing things. Within the shortest possible time, it had to produce a body of new and generally workable things, a brand-new cultural system that differed from that of West Europe, North America, the USSR, and East Europe. China truly faced a situation of "not being able to take one's time, but making every minute count!"

In other words, a "desperate situation" was faced in foreign affairs work. The Chinese were now faced with no longer repairing the remaining scars of the 4 June incident, and no longer explaining the ups and downs of the "East European disturbances," but developing a foreign policy to shake off the remnant influences of the cold war system, and to move toward a 21st century orientation and specifics in foreign affairs activities. Its mission was to build a completely new, enlightened Chinese service within a "distinctively Chinese socialism," in order to create external factors favorable to China's smooth development. It was also so that in facing the world, as a major political and economic power and a large civilized country, China would be able to discharge its historical responsibilities in the creation and development of new international political and economic patterns, and a new regional order and international order!

### Major Trends in China's Future Foreign Relations

What major trends will there be during the next 20 to 30 years in China's diplomatic activities and foreign policies?

Obviously, China's foreign relations will have their own special historical mission during this period, the main ingredients of which could be as follows:

First is coordination between national defense and public order units in joint efforts to maintain national security, territorial integrity, and internal order, avoiding or reducing foreign interference and threats.

Second is continuation of the line of reform and opening to the outside world that has existed since the Third Plenary Session of the 11th party Central Committee for the creation of factors outside China favorable to progress in China's modernization. In other words, this means dealing in a timely, effective, and flexible manner with foreign affairs matters and international relations having a bearing on reform and opening to the outside world, and on progress in the four modernizations.

Third is smooth development during the transitional period in recovering sovereignty over Hong Kong and Macao, as well as making an auspicious beginning in the "one country, two systems" efforts to maintain close cooperation between China and the United Kingdom, and between China and Portugal. Furthermore, since both Hong Kong and Macao are international metropolises during the recession period, Hong Kong and Macao problems will be an issue in international politics. Diplomatic and foreign relations problems requiring handling will be numerous.

Fourth is handling Taiwan's international position and problems involving the character and form of its international activities. Since the Taiwan authorities long to move ahead with a foreign policy as an independent country, generally moving ahead in a countercurrent from "one country, two governments" to "two countries, two governments," work in this regard will sometimes see sharp political conflicts and international clashes.

Fifth is the creation of favorable international conditions for progress in the peaceful unification of China, making international society understand, make allowances for, and provide support for this task. At very least, they should maintain neutrality, not creating obstacles. Should a situation of saber rattling and armed clashes occur in the unification process, large-scale diplomatic activity will be required to handle the international shock to prevent the internationalization of a domestic issue, or the creation of unfavorable effects on the international pattern and the regional order.

Sixth, with regard to China's regional development strategy, various activities involving foreign affairs or foreign nationals—such as developing China's coastal regions, Hainan Island, and special economic zones—will have to be conducted at the central government,

provincial and autonomous region, and local levels. Thus, more detailed development work will be required for diplomatic activities and foreign affairs policy ideas, theories, policies, and modes.

Seventh, with the advent of the 21st century, all jurisdictions in China must further explore the situation in provinces and regions in the border regions of surrounding countries in terms of circumstances in their own province and region, combining the two to formulate a trade policy and industrial structure that cuts across national boundaries. This is bound to occasion numerous problems for diplomatic activities and foreign policy. It will require a series of novel ideas, theories, policies, and organizations, as well as personnel to deal with the problems that this economic cooperation occasions.

Eighth, it is estimated that as a result of the impact of the retrocession of Hong Kong and Macao, and progress in unification, between 2 million and 3 million people from Hong Kong, Macao, and Taiwan will emigrate abroad (mostly to North America, Australia, and Southeast Asia) between the 1980's and the beginning of the 21st century. Furthermore, according to pertinent agreements and international law, these foreign citizens of Chinese origin have the right to return to the aforementioned Chinese areas for long-term residence and to conduct social activities (and even political activities). This will give rise to a series of completely new and complex international exchange situations, as well as foreign policy problems. As an example, the policies of the Chinese central government, individual special administrative region governments, and other provinces and regions will have to protect the rights and interests of this returning flow of people, and care will have to be taken in handling problems involving reactions from the countries in which they have become citizens. Therefore, given the concepts and framework of the "Cathaysian system," this aspect of work become an important, integral part of Chinese diplomatic activities and foreign policy.

### The International Responsibilities That China Must Discharge

The aforementioned eight matters, we believe to be ones that China's foreign policy must address during the period just before and after 2000 in order to advance China's national interests. Furthermore, as a great nation, China's foreign policy must also discharge responsibilities for international society as follows:

First, China must make new infusions of ideas, direction, policies, personnel, and ways of doing things into international agencies (or organizations); and it must assume a greater economic, manpower, and materials commitment. This is a matter of doing more for the organization, operation, and functioning of the United Nations. Iraq's August 1990 invasion and swallowing up of Kuwait showed that the United Nations is able to play

a more important role in maintaining international order during the "post-cold war period."

Second, with the end of the cold war system of U.S.-Soviet hegemony, how to restructure the international political and economic pattern, and to establish another macrostructure that does not serve the interests and operate at the will of the big Western powers, that is relatively fair, equal, just, and effective, is a major issue that China and all countries of the world face.

Third, the Third World countries that have appeared from the 1950's to the 1970's will face serious political, economic, social, ethnic, ecological, and other challenges. Internal insurrections and regional strife (leading to small-scale wars) may occur in an endless stream. With regard to these worrisome issues of fundamental importance for survival and development, China obviously has a special obligation to make an unprecedented major contribution in theories, policies, and handling. The reason is that China firmly believes itself also to be a Third World "developing country," and that the Third World countries are a "principal commitment" of its foreign policy!

Fourth, cooperation with and support for Third World countries is even more fundamental. Actually, it is an issue of China's peaceful coexistence with and common development with the countries (and territories) on its borders, particularly in Southeast Asia, South Asia, and the Middle East, as well as Central Asia. In other words, China can provide some of the important external factors for their internal change and modernization, thereby enabling the Asian-Pacific region to thrive during the 21st century.

In short, discussion of China's foreign policy during the coming century is, as Zhou Enlai said following founding of the People's Republic of China, a matter that involves how to make "diplomacy" a "scientific and systematic" discipline, and a "sinicized" discipline.

"...Although we can translate books on diplomacy from several fraternal countries and the USSR, or translate a number of bourgeois countries' books about diplomacy, the former can only serve as a guide, and the latter are not scientific from a Marxist-Leninist standpoint. Only after collation from a Marxist-Leninist point of view can they be termed scientific. We may select a number from the former source, but from the latter source, we can only glean some technical references. We must sinicize diplomacy, but we cannot do that yet..."

Two problems are involved here: The first is how to establish a scientific, systematic, sinicized "diplomacy." The other is development of a distinctively Chinese, 21st century-oriented foreign policy. Running through both is

the establishment and development of a Chinese diplomacy that is "devoid of the cold war era," a Chinese foreign policy, and a new diplomacy and new international politics at the international level (i.e., each country's century-spanning diplomacy and foreign policy).

#### Substance of Chinese Foreign Affairs Activities

Thus, the thrust and the substance of Chinese activities in the diplomatic and foreign policy realms may be in the following several main regards:

First, in the wake of the "Beijing disturbances"; and the "East European disturbances," the people of China and of some other countries are more committed to Marxism-Leninism and socialism; however, as two major ideologies and social systems, socialism and capitalism will have more links, exchanges and cooperation, as well as conflicts and competitions, and they will also have closer relations. The Chinese "first stage of socialism doctrine," its "one country, two systems," and the special economic zones model more concretely reflect such a tendency in world development.

Second, in the "post-cold war era," there will no longer be a sharp division in the existence and operation of capitalism and socialism, with two large diametrically opposed camps taking shape. Thus, advances will be made as well in ideas, theories, policies, organization, personnel, and ways of doing things. The "black or white, either... or duality will not continue to control." This kind of absolutism, which exists in Western civilization, and which has hurt the world in ways too numerous to record, was visible in the perniciousness of U.S. and Soviet confrontation. Therefore, people with vision in the world should seek ways to show their talents.

Third, in actual political work, all countries (particularly developing countries) must shape a "three-way combination" from socialism, capitalism, and their national traditions as their national circumstances warrant, absorbing knowledge for the formulation of development policies as well as social forms, and not practice the cold war formula A to Z.

Therefore, the operation at a high level of China's foreign relations in the period just before and after 2000 will promote an open, plural, broad, and lively international situation. No longer will the special orientation and interests of certain western countries hold sway with the building of new blocs that are antagonistic to each other in theory and practice. Instead, countries large and small will be able to set their own development strategy as their national circumstances warrant, developing multilevel, multifaceted exchange and cooperation on the basis of equality and mutual benefit.



**Academic Versus Political Criticism Analyzed**

91CM0348A Beijing ZHENLI DE ZHUIQIU  
[PURSUIT OF TRUTH] in Chinese No 2, 11 Feb 91  
pp 29-30

[Article by Liu Qian (0491 6197), affiliated with Beijing Normal University: "On 'Academic Criticism' and 'Political Criticism'"]

[Text] Today, we still have a lot of work to do to weed out the effects of bourgeois liberalization in the ideological realm, but one problem deserves special attention, and that is how to handle properly the issue of "political criticism"? If not handled correctly, it will undermine our effort to weed out the effects of bourgeois liberalization in the ideological realm.

"Political criticism" refers to the act of exposing the errors in political ideology and political attitude, analyzing the source of those errors, and pointing out the dangers of those errors in the objects of criticism from the political point of view. Ordinarily, in the struggle to weed out the effects of bourgeois liberalization in the ideological realm, "political criticism" is not only a necessary means, but it has proven its effectiveness. But lately some comrades have either consciously or subconsciously been showing a tendency to emphasize "academic criticism" and to slight "political criticism." Some comrades have even shown prejudices against and aversion to "political criticism." To them, "academic criticism" is reasonable and scientific and is the only "correct way," but "political criticism" is always "excessive" and "sticks political labels on people" and is therefore not the "proper way." It is our opinion that such views are less than fair. The fact is, whether certain "criticism" is reasonable and whether it is scientific depend not on whether it is "academic" or "political," but more basically on the person who is doing the criticizing, on the criticizer's own ideological standard and theoretical accomplishments. In a certain sense, "political criticism" is more rational and scientific than "academic criticism."

In the struggle to weed out the influence of bourgeois liberalization in the ideological realm, both "academic criticism" and "political criticism" have their uses. Both are necessary. Whether we should carry out "academic criticism" or "political criticism" against a certain object of criticism should not be a subjective decision based on the past experience of the person doing the criticizing; instead, it should be determined by the situation around the object of criticism. If, in fact, only academic issues are involved, then no doubt only "academic criticism" should be used against that object of criticism, and we should try to sort out the rights and wrongs through this kind of criticism. However, if political issues are involved with other objects of criticism, then naturally we need "political criticism" to sort out the rights and wrongs of the political issues. The truth is, in the ideological realm, many scientific academic issues and political issues are often tangled up, and, faced with

these objects of criticism, we must use a combination of "political" and "academic" criticisms; otherwise, we will not be able to make a sound judgment. One situation deserves our special attention, and that is that several articles and books made their appearances a few years back as academic works, and no doubt many had to do with academic issues, but in discussing those issues they also advocated and propagated many erroneous political viewpoints that violated the "four basic principles." Against these works we simply cannot just carry out "academic criticism" without also making "political criticism." Take the essay "On the Subjectivity of Literature," for example. The title itself no doubt suggests an academic issue, but the author expresses views in the discussions that are diametrically opposite to the Marxist ideology and are at odds with today's socialist social reality. Faced with an article that errs seriously in political ideology, can we just limit ourselves to "academic criticism" without carrying out "political criticism" at the same time? Or, take the scholar who specializes in the history of Chinese thoughts. In his *Zhongguo Xiandai Sixiangshi* [History of Contemporary Chinese Thought], he suggests that "national salvation is prevailing over enlightenment." He suggests that, in the early days of the May 4th Movement, national salvation and enlightenment managed to "give impetus to each other," but since the founding of the PRC, "the long revolutionary war against imperialism and the reactionary warlords have rendered everything, not to mention the theoretical and realistic study and propagation of such issues as personal freedom and individual liberation, secondary and supplementary. The perils of the times and the intense real struggles have once again forced us to put the theme of political salvation above ideological enlightenment." It is easy to discern whether such a viewpoint should be deemed academic or political. As for its criticism, will anything short of "political criticism" be sufficient?

There are many reasons why some comrades look down on and even shun "political criticism." The two most important reasons are, first, the "great criticism" of the Cultural Revolution is still fresh in their minds, and they associate today's "political criticism" with the "great criticism" of the Cultural Revolution. This is far-fetched and is an unnecessary concern. The so-called "great criticism" of the Cultural Revolution was, in fact, a tool used by the gang of four to facilitate their political conspiracy. Today's "political criticism" is an important part of the process to combat bourgeois liberalization. The two are completely different, and we should not have any unnecessary doubts. Second, to some extent, these people are influenced by the erroneous viewpoints advocated a few years ago by those who urged us to "play down politics" and "play down criticism." The reason these are erroneous is that they gloss over the sharp conflict between the four basic principles and bourgeois liberalization in the ideological realm and seriously sap the people's morale and tie the hands of the masses of theoreticians, and in turn give the green light to those dealing in bourgeois liberalization. The fact is that those

who deal in bourgeois liberalization in the ideological realm do not "play down politics" or "play down criticism." A portion of *Heshang* [River Elegy] is proof. *Heshang* subjects the Chinese nationality's cultural tradition and socialism to merciless, scathing criticisms while crying out fervently, urgently for capitalism. There is not the slightest evidence that the film "plays down politics" or "plays down criticism." Thus, we can see how hypocritical and dangerous are those who urge us to "play down politics" and "play down criticism." Today, some comrades must free themselves from the binds of "play down politics" and "play down criticism" and bravely pick up the weapon of "political criticism" and throw themselves into the struggle to weed out the influence of bourgeois liberalization in the ideological realm.

We must clarify that the "political criticism" we emphasize here is a response to the attitude that look downs on and even disdains "political criticism." It does not imply that we do not think "academic criticism" is important too, even less are we advocating replacing "academic criticism" with "political criticism." In the struggle against bourgeois liberalization, especially in the struggle to weed out the influence of bourgeois liberalization in the ideological realm, both "political criticism" and "ideological criticism" are important; neither is dispensable. This point was already discussed earlier. It is our fervent hope that the masses of theoreticians will make good use of these weapons called "academic criticism" and "political criticism," and we also hope that when they make use of their "political criticism" weapon, they will show its true color in practice and remove the people's doubts about it, so that it can play the role it deserves in the struggle against bourgeois liberalization and in our spiritual civilization.

### Democratic Socialism Denounced

91CM0348B Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 2, 5 Feb 91 pp 52-53

["Questions and Answers" column; written by Zhen Hua (3914 0553) and Lu Dongtao (4151 2639 3447)]

### [Text] Why Is Democratic Socialism a Countercurrent in the International Communist Movement?

Today, as a continuation and extension of the Second International's social democratic trend of thought, democratic socialism is not only being lauded and advocated by certain Western bourgeois scholars and politicians, but is also spreading quickly in some socialist countries. The truth is, if we go back to the source, the democratic socialist trend of thought is nothing new. It originated with Bernstein's revisionist social democracy in the late 19th century. Between the two World Wars, social democracy had gained considerable notoriety, and it was not until the 1951 Socialist Party International in Frankfurt, and with the *Frankfurt Proclamation*, which was also entitled *The Objectives and Missions of Democratic*

*Socialism*, that democratic socialism took on a new outlook and staged a comeback.

World order has undergone significant changes since World War II. Many new situations have emerged. The capitalist world has enjoyed a period of relatively stable development. Propelled by the new scientific and technological revolution and with the installation of welfare programs, basic social conflicts have eased to some extent, and social revisionism has been resurrected. Meanwhile, because of serious mistakes in guiding ideologies and policies, the socialist countries let many opportunities slip by and failed to give play to the superiority of the socialist system. At the same time, the Western monopoly capitalist class takes advantage of its economic and technological superiority and the socialist countries' reform and opening up and their temporary difficulties to launch an intensive "peaceful evolution" strategy. All these have once again stirred up democratic socialist thoughts.

In the last few years, democratic socialist thoughts have been spreading rapidly across the socialist countries to form a force that is diametrically opposite to the scientific socialism in the international communist movement, creating a serious challenge to the socialist system. It hoists the "revolutionary" banner and launches its attack on scientific socialism in every domain. It assails the guiding role of Marxism-Leninism as "spiritual monopoly" and proclaims that, "to the social democratic party, the Bible is more important than the works of Marx and Engels." It advocates "pluralization" of ideologies and the process of "free competition" of all ideas. It accuses the proletarian dictatorship of "destroying individuality and freedom and of being inhumane." It advocates "elimination of dictatorship by any class," "all-out substantiation of human rights" and the formation of a "nation of the people." It charged that socialism is in a state of "serious sociopolitical crisis" and advocates "radical reconstruction of our entire social edifice." It accuses the Communist leadership of "political monopoly" and "autocracy" and advocates a multiparty system and the implementation of "thorough reform" of the Communist Party. It accuses democratic centralization of "centralism" and of using "barrack-style discipline by hierarchy" and for obstructing "personal freedom." It advocates turning the Communist Party into "an autonomous sociopolitical organization" or "a voluntary alliance of people of the same mind and same goal." It attacks the socialist public-ownership system and planned economy and advocates total privatization and a "mixed economic system" and the practice of a completely "free market economy" and so on.

In summing up the above, the kind of "reform" advocated by democratic socialism represents a complete retrogression of the socialist country's economic, political, cultural, and social systems. It is definitely not the "trend of world progress," nor does it represent the future of the socialist system. It is a countercurrent in the international communist movement. Looking at the

practices in some socialist countries, rampant democratic socialist thoughts have already brought political turmoil, economic depression, ideological chaos, seething popular discontent and other serious consequences. This painful lesson should warn us that only if we stand up against this adverse current with boldness of vision can we sail on steadily under the guidance of scientific socialism.

(By Zhen Hua [3914 0553])

### **Why Do We Say That the Kind of "Democracy" Propagated by Democratic Socialism Is in Essence But Bourgeois Democracy?**

Those who advocate democratic socialism have always boasted of their "democracy." They hoist the banner of "democracy above all" and fervently attack the "lack of freedom" and the "inhumanity" of the real socialist system and assail it as "national socialism" and "autocratic socialism." They advocate "establishing a new, free society through democratic means." At first glance, democratic socialism may appear to be taking the "third road" which is neither communism nor capitalism, but, in fact, its tendentiousness is very clear. The "democracy" propagated by democratic socialism is in essence bourgeois democracy.

First, the democracy proclaimed by democratic socialism is a kind of superclass, abstract democracy. Democratic socialism basically denies that socialist democracy is the broadest, most real kind of democracy the proletariat and the masses of working people have ever known. Instead, it vigorously advocates a kind of "democracy of equal value to all mankind." Democratic socialism urges people to "abandon their class stand which is antagonistic to the value of all people and all mankind" and boasts that the heart of democratic socialist thinking is "to acknowledge that human value rises above all things." The theories that democratic socialism has created for its "democracy" simply have no validity, because, in a society where classes exist, human interests are directly linked to class interests. Each class always acts in its own interests when dealing with the common issues of mankind. It is impossible to have one value concept or class stand that is shared by all men. For example, since exploitation of surplus value is the basis of the capitalist class's value outlook, the capitalists will not be concerned about the interests and the dignity of the proletariat or voluntarily give up the exploiting class's stand. Thus, the critical point of the "democracy" advocated by democratic socialism is the abandonment and denial of class analysis.

Second, the "democracy" advocated by democratic socialism is founded on the capitalist class's abstract human rationale and ethical principles. It assails communism as being "incompatible with human nature, with the functions of the state, and with the evolution of human society" and describes socialism as a "moral obligation" and "moral inevitability" and boasts that "man" lies in the heart of the socialist ideal, that is,

"practical humanism in action," and it paints a beautiful picture of socialist democracy under which democracy, freedom, equality, universal love, justice, and human rights are "enjoyed by all man unconditionally." This utopian view with its thick idealist flavor is an old cliché used over and over by the capitalist class as a tool to hoodwink people. Facts prove that this flat theory cloaked in its fancy garb is pure hypocrisy. Lenin hit the nail on the head when he said, "pure democracy is in essence but the bourgeois democracy the capitalist class uses to fool the workers and evade modern democracy."

Third, the "democracy" advocated by contemporary democratic socialism is patterned after the political mold of the developed capitalist countries. Democratic socialism defines socialism as the "complete democratization of society." It is secretly peddling the West's multiparty system, tripartite separation of power, parliamentary democracy, free elections, and other bourgeois rubbish. It charges that the Communist Party's leadership is "the root cause of all abuses and crises" and advocates establishing "the principle of freedom of all factions and programs" and "the principle of unconditional democracy" within the party and demands complete freedom to take part in factional activities within the party and so on. If democratic socialism's political beliefs are put into practice, the activities of all kinds of antiparty, antisocialist forces will be legalized and will seize political power step by step to form a bourgeois republic. This will be the natural course of development of the "democracy" advocated by democratic socialism.

(By Zhen Hua [3914 0553])

### **Why Do We Say That Democratic Socialism Often Gives Play To Imperialism and Peaceful Evolution?**

A combination of many factors allows imperialism and the strategy of peaceful evolution to get the upper hand in some socialist countries. Among them, the fact that democratic socialist thoughts and the strategy of peaceful evolution are echoing each other from inside and outside the socialist countries is crucial to imperialism's quick success. Why do we say that?

First, we should realize that the peaceful evolution strategy of the modern imperialist countries is clearly not the same as the old policy of armed intervention. In the past, force was used in the attempts to overthrow the socialist system from the outside. After such measures as armed intervention, military containment, isolation, and blockade were defeated again and again, international imperialism was forced to change its tactic and come up with the so-called "peaceful evolution" strategy. Through its "peaceful offensive," it hopes to bring changes inside the socialist countries to gradually achieve their goal of splitting up, dismantling, and overturning the socialist system. Thus, this strategy pays special attention to seeking out and utilizing the anti-communist, antisocialist forces within the socialist countries to serve as agents in implementing the peaceful evolution strategy.



In the last 20-30 years, socialist countries have run into many problems and setbacks on the road to development. The imperialists believe that their "historical opportunity" for peaceful evolution has come, and they yell "seize the opportunity," "fight a world war without the smell of gunpowder." They hope to overturn the socialist system in one stroke and reach their goal of "victory without war." They set all sorts of propaganda machines in motion, and, through economic, cultural, and diplomatic means, they vigorously propagate capitalist political, economic, and cultural concepts; glorify their lifestyle; and vigorously cultivate, protect, and lavish praise on the so-called "people with different political viewpoints" and "democratic warriors" in the socialist countries as they echo each other's tune from within and without. They insult and assail socialism's "lack of freedom," "deprivation of democracy," and "violation of human rights" and do their best to incite the people's resentment and hostility toward the socialist system and the Communist Party's leadership. They try to stir the socialist countries toward political pluralization and the multiparty system, economic privatization and the market system, and Western ideologies and lifestyle, hoping to eventually reach the goal of restoring capitalism. The drastic changes in some socialist countries in recent years indicate that the peaceful evolution strategy is indeed achieving results that naked armed intervention could not achieve.

Second, the democratic socialist stand and the demands of the peaceful evolution strategy are cut from the same cloth, and therefore the former is able to serve imperialism and the peaceful evolution strategy. Contemporary democratic socialist thoughts have emerged against the historical background of reform and opening up. They have gone from exposing Stalin's errors to refuting the basic principles of Marxism and Leninism and from criticizing the defects of the political and economic systems of the Stalin era to criticizing the socialist system and rejecting the history of socialist construction. Subsequently, they have even openly called for abolition of the Communist Party's leadership on political matters and implementation of a multiparty system and have urged that different political forces (including anticommunist and antisocialist forces) be allowed to engage in so-called fair competition. Economically, they deny that public ownership of the means of production should play a principal role, demand implementation of a mixed economy, and advocate complete privatization. Ideologically, they reject Marxism-Leninism as a guiding ideology and advocate pluralization of ideologies. Thus, democratic socialism is in complete accord with the demands of imperialism and the peaceful evolution strategy and serves as imperialism's agent to overturn the socialist system from within. Because democratic socialism raises a banner that says "rethink, probe, and criticize past mistakes" to challenge scientific socialism, it can be very deceiving. The truth is, the inundation of these ideas has confused many people's thinkings and has allowed many erroneous viewpoints to spread quickly and has enabled the anticommunist forces to

make a lot of noise, thus playing a role foreign imperialism has never been able to play. Without democratic socialism to echo its voice from the inside, the strategy of peaceful evolution would never have been so successful so soon in some socialist countries. No wonder the Western media are gloating over the effects of democratic socialism, saying that it is "more than Dulles could ever have expected" and that "it is leading communism to a dead end." This says that democratic socialism in fact has performed deeds of valor for the strategy of peaceful evolution. Thus, if we want to resist the aggression of imperialism and the peaceful evolution strategy and build a socialism with Chinese characteristics, we must insist on criticizing the erroneous theories and viewpoints of democratic socialism and defend the purity of scientific socialism.

(By Lu Dongtao [4151 2639 3447])

**Democratic, Scientific Socialism Differ in Essence**  
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[Article by Wang Xiangwu (3769 4382 2976) in "Guide for Cadres' Theoretical Study" column sponsored by the Theory Office in the Propaganda Department and the Cadre Theory and Education Lecturers Group of the Beijing Municipal CPC Committee: "Essential Differences Between Democratic Socialism and Scientific Socialism"; XUEXI YU YANJIU is the official journal of the Beijing Municipal CPC Committee]

[Text] In recent years the ideological trend of democratic socialism has spread swiftly on the international scene. Under the influence of this ideological trend, there have been sudden upheavals in the political situations of some socialist countries. One after another the worker class parties in power have changed their names, announcing the abandonment of scientific socialism and the pursuit of democratic socialism. This opportunist ideological trend within the communist movement, in close cooperation with the peaceful evolution strategy that is intensely pursued by international reactionary forces, is a severe challenge to scientific socialism.

Because democratic socialism flaunts both the banner of "democracy" and the banner of "socialism," it is highly hypocritical and fraudulent. In addition, it has appeared with the visage of so-called "reform" in socialist countries in which the proletariat already controls political power. This challenge from within is even more dangerous, and even more needs to be taken sufficiently seriously by us. Also, we must soberly see that the ideological trend of democratic socialism now exerts a considerable influence in China. When the ideological trend of bourgeois liberalization is spreading unchecked, some people regard the ideological trend of democratic socialism as a "progressive trend in international affairs" and call on us to go along with it; other people, hankering after the reversal of the verdict on the Second International's revisionism and after the reversal of the

verdicts on Bernstein and Kautsky, highly praise the Socialist Party International and the "Swedish model." There are also some people who describe the changes occurring in certain socialist countries as "progressive phenomena," and praise democratic socialism as a "better form of socialism" and a "useful exploration." What is especially worthy of attention is that the ideological trend of bourgeois liberalization and the ideological trend of democratic socialism have many points in common. At this juncture in international affairs, when the ideological trend of democratic socialism is wantonly spreading, we must be highly vigilant about the revival in a new guise and a resurgence of bourgeois liberalization in China. Therefore, making definite the nature of democratic socialism, and clarifying the essential differences between democratic socialism and scientific socialism, is of important significance in strengthening our faith in socialism, our insistence on taking the socialist road, our opposition to bourgeois liberalization, and our opposition to the imperialist plot for peaceful evolution.

So-called democratic socialism is not a new invention or new creation. From a look at its ideological system and fundamental theory, we see that it can be traced back to the ideological trend of social democracy, which spread widely at the end of the 19th century and the beginning of the 20th century. It carries on and develops, under new historical conditions, the ideology of the Second International's Bernstein and Kautsky. In Bernstein's views on class harmony and peaceful growth into socialism, as well as in Kautsky's "theory of supra-imperialism" and "pure democracy," we find the origin of democratic socialism. In line with the theory of scientific socialism and the practice of socialism in the 20th century, the essential features and fundamental principles of the socialist system can be summarized as follows: In politics, upholding the leadership of the Communist Party and exercising the dictatorship of the proletariat; in economics, with the socialist ownership system in which public ownership is the main part, and with the socialist distribution system in which distribution according to work is the main part, integrating the planned economy with market regulation and developing the national economy in a planned, proportionate way; in ideology, establishing the guiding position of Marxism; etc. Democratic socialism precisely negates these essential features and fundamental principles that the socialist system must possess and displays a fundamental antagonism to scientific socialism.

#### **First, Changing the Party's Nature, Abandoning Party Leadership, and Advocating the Multiparty System**

On the pretext that some faults were committed in the work of the ruling party of a socialist country, democratic socialism advocates a "thorough reform" of the Communist Party and the founding of a "new-type party" "that makes a complete break with the past." This party would no longer be the vanguard of the proletariat, but would be the people's party, the nation's party, and the fellow countrymen's party; it would no longer make communism its struggle goal, but would make the

founding of democratic socialism and "establishment of the value system of all mankind" its goal; would no longer make Marxism the guiding ideology, but would advocate the pluralization of the guiding ideology; and would no longer, in line with the principles of scientific socialism, establish the party's organizations and initiate the party's activities, but would put into practice total democracy and autonomy and permit the existence of different factions within the party. With regard to its role, the party would no longer be a strong fighting force, would no longer be a political nucleus that leads and unites the mass of working people in carrying out revolution and construction, but would gradually turn into a parliamentary party that organizes election campaigns and engages in parliamentary struggle. Proponents of democratic socialism regard the Communist Party's leadership as "bureaucratic despotism" and "administrative commandism," maintaining that upholding the party's leadership runs counter to the idea of the people being the masters of their own affairs. They demand that the party's "political monopoly" be abandoned; that the articles in the constitution on the Communist Party's leadership be rescinded; and that "free competition between all political organizations and factions" in "expressing all political aspirations" be allowed, and that the Communist Party should "seek to obtain a recognized seat" in this competition.

Scientific socialism upholds the basic principles of Marxism on the theory of proletarian dictatorship, maintaining that the Communist Party, as the party of the proletariat, must make the realization of a communist society its highest struggle goal, must make Marxism the guiding ideology, must preserve the vanguard nature of the worker class, its advanced ideological nature, and its organizational purity; and must uphold the principles of democratic centralism by not allowing the existence of factions within the party and not allowing the activities of organizations and factions within the party. Scientific socialism upholds the Communist Party's leading position in the life of a country and its society, maintaining that the party's leadership is the basic guarantee for obtaining the victory of the socialist cause. Separated from the party's leadership, the socialist orientation will waver, and the results of the victory of socialism that the proletariat and other working people obtained through bloody fighting, will be ruined. Departing as it does from the party-building principles of Marxism, democratic socialism carries out a so-called "thorough reform" of the Communist Party, which in reality changes the nature of the party so that it is no longer the party of the proletariat. Its proponents oppose upholding the Communist Party's leadership and advocate the multiparty system. The Communist Party's leadership is absolutely not a question of its ruling style but rather a question of whether socialism is practiced or not. In a class society the nature of the social system and the direction of social development determine what political force occupies the ruling position and whose party holds political power. If socialist countries do not insist on leadership by the proletarian party, but rather allow the party of another



class to hold political power, it will be impossible to ensure the correct orientation of socialism, and, in fact, the socialist road will be abandoned. Therefore, the differences between democratic socialism and scientific socialism on the question of the nature and role of the party are differences of a principled nature, are differences related to the future destiny of the socialist and communist movement.

### **Second, Attacking Proletarian Dictatorship, Propagating Supraclass "Universal Democracy"**

Democratic socialism attacks proletarian dictatorship for "eliminating individuality, eliminating freedom, and being inhuman," for being "despotic" and "dictatorial." Its proponents seize on and make an issue of the mistakes of class struggle expansionism sometimes committed in the history of socialist countries, depict the proletarian dictatorship as a system of terror that runs counter to humanitarianism and is undemocratic, and demand that proletarian dictatorship be abolished and that "dictatorship by any class" be eliminated. Democratic socialism abstractly makes "democracy" the core of socialism, saying that "democracy is higher than everything." It maintains that "democracy and freedom are the great value outlook of human civilization" and that "socialism is universal democracy's ideal for all humankind and the embodiment and defender of its values." Its proponents add the word "democratic" before the concept of socialism to show the difference between it and the original socialist system, and make "democratic socialism" the goal and model for "innovative socialism."

Scientific socialism maintains that the proletarian dictatorship is the state system of a socialist country, and it makes clear the class nature and historical mission of a socialist country. Proletarian dictatorship is the combination of democracy for the great majority of people and dictatorship for a tiny minority of hostile elements. Only by ensuring the democratic rights of the people can dictatorship be effectively exercised over enemies, only by insisting on dictatorship over a tiny minority of hostile elements and striking down enemies without the least soft-heartedness can the democratic rights of the people be ensured. Democracy is the essential feature of socialism and finds its proper meaning in the term socialism. Democratic socialism flaunts the banner of "universal democracy" when attacking proletarian dictatorship, as if it most emphasized democracy and scientific socialism did not want democracy. This is where democratic socialism is most able to confuse people. In reality, the differences between scientific socialism and democratic socialism basically do not lie in whether democracy is wanted or not, but lie in what kind of democracy is wanted.

In line with Marxism's outlook on democracy, democracy is a political and historical category that possesses a distinct class nature. Any democracy belongs to the political superstructure, is determined by a certain economic base and also serves this economic base. In the

contemporary world exist two fundamentally different democratic systems and concepts, to wit, bourgeois democracy and socialist democracy; there does not exist any abstract, supraclass "universal democracy." Bourgeois democracy is a political system established on the basis of capitalism's private ownership of the means of production. No matter what specific form it takes, no matter how perfect and exquisite its system and operating mechanisms are, in essence it serves the interests of the bourgeoisie and gives only a small number of them the democracy they enjoy. Socialist democracy is a political system established on the basis of public ownership of the means of production, and is a new-type democracy in history. It truly allows the broad masses of people to enjoy widespread, full democratic rights, and in it the people are the masters of their own affairs. Even if all the democratic systems of socialism are imperfect and not mature enough, this is just a question of improving work and one cannot, because of this, doubt the advanced nature and truthfulness of socialist democracy. As the superstructure, democracy is always tied to dictatorship. Giving democracy to one class is bound to mean exercising dictatorship over its opposite class. Democracy and dictatorship are one thing with two aspects. The essence of bourgeois democracy is bourgeois dictatorship, that is, the dictatorship of the minority of people over the majority of people. Socialism is the dialectical unity of democracy for the great majority of people and dictatorship over a tiny minority of hostile elements. Democratic socialism attacks proletarian dictatorship and advocates supraclass "universal democracy." Its essence was pointed out by Lenin in the year that he exposed Kautsky and his ilk: To use discussion of "universal democracy" to support bourgeois democracy and to use denunciation of "universal dictatorship" to oppose proletarian dictatorship are an open betrayal of socialism and a surrender to the bourgeoisie. This is precisely the fact. Democratic socialism, this so-called "universal democracy," the multiparty system, free elections, and separation of the legislative, executive, and judicial functions of a government are all bourgeois rubbish. If, in accordance with this stuff, we were to "renovate socialism," the inevitable result would be to use the West's bourgeois model to transform the socialist system.

### **Third, Casting Aside the Method of Class Analysis, Maintaining That Socialism Is the Embodiment of Mankind's Rational and Moral Principles**

Democratic socialism always abstractly discusses universal, all-mankind, all-people things, but casts aside their specific class content and does not make a class analysis. Its proponents put forward the "class stand" of "abandoning antagonism to the values of all people and all mankind," and taking up the struggle goal of the "common values of all mankind." In democratic socialism, socialism is not the inevitable result of the movement of contradictions in human society, but is the realization of humanitarianism, freedom, equality, mutual help, and other rational and moral principles of

mankind. Its proponents also say that, to oppose capitalism, some analysis must be made of the evil and contradictory phenomena in capitalist society: for example, exposing the fact that capitalism has created the phenomena of large numbers of unemployed workers and of social inequality; pointing out that the social and ecological environments are being destroyed by capitalism's science and technology and its economic development; and so forth. However, they maintain that the source of these evils and contradictions does not lie in the capitalist system itself, does not lie in the existence of class exploitation and class oppression, but are violations of humanitarianism and of the moral principles of freedom, equality, justice, and mutual help. They regard socialism as the result of moral and ethical development, and make the individual the center of socialist ideas and principles, sweepingily proposing "comprehensive, substantive human rights" and "the dignity of man."

Scientific socialism maintains that, in a class society, class analysis is the basic method for a Marxist analysis of problems. If one abandons the class viewpoint and the method of class analysis, one cannot understand and transform society and go on to promote the progress of human society. Scientific socialism holds that morals and ethics are determined by the economic base, and are a part of its superstructure and ideology. The concepts of freedom, equality, justice, and mutual help are not made the eternal, common values of all mankind; the cause of each historical development can be found only in the changes in society's mode of production. The realization of socialism is the inevitable result of the development of the basic contradictions in a capitalist society, and is an objective law of history that will not be changed by people's will. Democratic socialism does away completely with class analysis, repudiates class struggle, and departs from the real source of social, political, and economic contradictions; it regards socialism as the embodiment of mankind's rational and moral principles. In historical outlook, it is a fantasy of idealism. In reality, it denies that the realization of socialism is an inevitable law of historical development, purposely fails to mention the fundamental differences between the socialist system and the capitalist system, and wants the proletariat and the working people to abandon their faith in scientific socialism and to negate the long-range goal of communism. Its role is to meet the needs of imperialism's strategy of peaceful evolution, which will cause the socialist system to regress to capitalism.

#### **Fourth, Denying the Relationship of Socialist Ownership in Which Public Ownership Is the Main Part, Advocating a Mixed Economy or a Full Market Economy**

Democratic socialism maintains that the question of who owns the means of production is not a basic factor in determining the nature of society, and is not the main criterion for judging the nature of society. Its proponents oppose making public ownership the main part, advocating that all systems are, without exception, equal, and propose turning an economy in which the transfer to

public ownership has already been achieved into a mixed economy in which the market economy is the base. On the pretext that problems of form, for example, management forms, exist in the ownership by the whole people, they propose "decentralized nationalization" and, with the slogan "do away with the state monopoly on ownership," greatly weaken the public ownership economy. They maintain that the private ownership's competitive mechanisms and production efficiency can inject vigor into economic life, because the means of production become private property and so people will take care of them, take seriously their utilization and appreciation, and be efficient. Therefore, they say, private ownership is "indispensable."

With consistency in both denying that public ownership is the main part and in advocating a mixed economy, democratic socialism promotes a full market economy. Its proponents have a blind faith in the spontaneous role of market mechanisms, holding that "for us the market economy is an effective way to satisfy the needs of producers and consumers, and the daily growing demand of society." They propose that "production, distribution, and consumption be regulated by market mechanisms," so as to quickly make the transition to a full market economy.

Scientific socialism maintains that the form of ownership of the means of production is the basic factor determining the nature of society. The ownership relationship in which public ownership is the main part is the most essential economic feature of socialism. Just as *The Communist Manifesto* says, the distinctive feature of communism is that bourgeois ownership is abolished, and "Communist Party members can sum up their theory in one phrase: abolish private ownership." Because private ownership is the main source of the exploitation and oppression of the worker class and laboring people, only the replacement of capitalist private ownership with socialist public ownership can fundamentally change the capitalist exploitative system.

The ownership relationship in which public ownership is the main part determines that the economic operating mechanisms of socialism can only integrate the planned economy with market regulation, and thus ensure the planned, proportionate development of the national economy. Integration of the planned economy with market regulation is a requirement of the public ownership economy itself; at the same time, it ensures that the public ownership economy's position as the main part and its leading role are protected. The basis of the market economy is private ownership, and putting into practice a full market economy is bound to cause the disintegration of the public ownership economy and create a state of anarchy in the entire economy.

Democratic socialism negates making public ownership the main part. It advocates a mixed economy or a full market economy, with the result that there can only be a complete transformation to private ownership and an incorporation into the world's capitalist system. Under

the conditions of private ownership and market economy, serious polarization will certainly be formed in society, the broad masses of laboring people will revert to a position of being enslaved and exploited, and so-called "democracy" and "socialism" will be nothing more than a pretty signboard and empty shell.

#### **Fifth, Negating the Guiding Position of Marxism, Advocating Ideological Polarization**

Democratic socialism maintains that making Marxism the guiding ideology is a case of "spiritual monopoly," and that we must "resolutely do away with ideological restrictions on different viewpoints and ideas." Its proponents advocate ideological polarization and uphold pluralism, saying that pluralism is "an important feature of democratic socialism." They stress that, because society is pluralistic, the socialist movement should not have a unified world outlook, but rather needs "free competition between all ideologies," "resolute opposition to any form of monopoly in the media," and allowing all parties and factions and all political organizations to use television, radio, and the press to freely publicize their own political viewpoints.

Scientific socialism maintains that Marxism has correctly brought to light the objective laws governing development of the world, in particular the development of human society. It has provided the worker class with the scientific theory and method to correctly understand and transform the world. It will always be the guide for action for the worker class and the laboring people in engaging in revolution and construction. As the objective world truth, scientific socialism is always a unity, never a plurality. Taking a sweeping look at the various ideologies in actual society, one sees that Marxism is the richest in vitality and in long-range prospects, is most representative of the fundamental interests of the proletariat and the broad mass of workers. Therefore, the socialist countries must not waver in upholding the Marxism's guiding position in ideology. Democratic socialism negates Marxism's guiding position, advocates the pluralization of ideology, and in essence is an ideology that esteems and is subservient to the bourgeoisie. By so-called pluralization it obtains for the opposition to Marxist theory and doctrine a position that makes rival claims to being their equal in order to replace them. If Marxism's guiding position is done away with, the exploration and the development of socialism will lose their bearings and go astray, and the fundamental interests of the worker class and all the people will be damaged.

The essential differences between democratic socialism and scientific socialism show that, even if democratic socialism flaunts the banner of socialism, it negates the essential features and basic principles of socialism, and thus is essentially antisocialist and is an adverse current against the international communist movement. We must consciously apply the stand, viewpoints, and methods of Marxism; make clear the essence of democratic socialism; and draw a clear line of demarcation

between democratic socialism and scientific socialism before we can ensure that our revolution will not lose its bearings and will continue to follow the road of building socialism with distinctive Chinese features.

#### **Democratic Socialism Called 'Retrogression'**

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[Article by Zhang Zhaomin (1728 0340 3046): "Democratic Socialism's So-Called Reform Is Retrogression Into Capitalism"; XUEXI YU YANJIU is the official journal of the Beijing City CPC Committee]

[Text] The most glorious events in 20th century world history have been the births of one socialist country after another after the victorious October Revolution in Russia. And in the more than 70 years since, socialism has achieved success of historical magnitude and has brought earthshaking changes to the world. In the last 20-30 years, in order to adjust to the further development of society's productive forces and to correct the many defects of the original mold, the socialist countries had generally put into practice far-reaching reforms to give even more play to the superiority of the socialist system. But in recent years, because their reforms have run into temporary difficulties, many socialist countries have changed their course and have raised the banner of democratic socialism or have even renamed the Communist Party the Social Democratic Party or Democratic Socialist Party and so on. In their wake, there have been serious political, economic, and social upheavals in these countries. It has caused great concern and has provoked serious thoughts and has raised doubts in the minds of some comrades. Is democratic socialism a reformed mold of contemporary socialism? Is it a way of probing into a different mold of socialism? Our answer to both questions is no. Democratic socialism is definitely not probing into a new mold of socialism. So-called reform based on democratic socialist theories is but a retrogression into capitalism.

Scientific socialism is a scientific system of proletarian ideologies. It is a summation of the proletarian movement's experiences and is also the guide to the proletarian movement's operations. The proletariat and its political parties in socialist countries must integrate the process of turning scientific socialist theories into reality with their own countries' real conditions. Thus, each country may shape its socialism differently. If socialism can be of different molds, why do we say that the reform implemented by democratic socialism is not an experiment to find a new mold of socialism but is retrogression into capitalism? Here, we must first straighten out the relationship between the basic socialist system and the different molds of socialism.

The socialist system consists of a basic system and specific systems. The basic socialist system is the compulsory nature of the essence of socialism, that is, the essential characteristics of socialism. These include



upholding the proletarian dictatorship, augmenting and developing the alliance between industry and agriculture, setting up a broad united front, establishing among the people a high degree of democracy but exercising dictatorship over the resistance of the handful of exploiting class and hostile forces. They also include establishing a socialist system of ownership of means of production which is based primarily on the public ownership system and a socialist system of allocation of consumer goods and materials based primarily on the principle of distribution according to work, so that all workers may share in the country's prosperity. It means focusing on economic construction and upholding the principle of integrating economic planning and market regulation to develop the socialist planned commodity economy in order to raise the material and cultural standards of all citizens. It also means affirming the guiding role of Marxism in the ideological realm, raising a socialist spiritual civilization, practicing equality and unity among the nationalities, and upholding the principle of independence, autonomy, and peaceful diplomacy. The establishment, consolidation, and development of the socialist system must be achieved under the leadership of a Communist Party which is formed according to Marxist party-building principles. These essential characteristics and this basic system not only are fundamentally different from the capitalist system but they also draw a clear line of demarcation between themselves and non-scientific socialist principles, including democratic socialism. To judge whether a social system is socialist, we must look for these essential characteristics and for this basic system. When we say uphold socialism, we mean upholding this socialist basic system. On the other hand, specific socialist systems are the socialist basic system and its essential characteristics in concrete form. The socialist political system, economic system, science and education systems, cultural system, and so on, are specific socialist systems. Specific socialist systems may be different in different socialist countries and can also be different within the same country at different developmental stages. For different reasons and in the course of development of various socialist practices, specific socialist systems in different socialist countries have developed flaws and in many ways are unable to reflect the socialist basic system. They can and should be perfected during the reform process to better reflect the needs of the basic socialist system and give more play to the superiority of the basic socialist system. The reason we have different molds of socialism is that, on the premise of upholding the basic socialist system and reflecting the socialist essential characteristics and in order to integrate each country's own social conditions, historical characteristics, nationality traditions, developmental phase, and other unique situations, different countries need different specific socialist systems, and therefore we see the diversity. Socialism permits different molds, but no matter what, the socialist molds cannot stray from the basic socialist system and its essential characteristics. If the socialist basic system and its essential characteristics are abandoned, we will no longer have socialism. We are in the glorious process

of actually creating a kind of socialism which has Chinese characteristics; it is the Chinese mold of socialism which combines the essential characteristics of socialism and China's own situation. This is the dialectical unity of the socialist basic system and the socialist specific mold.

Engels once said that, in his opinion, a "socialist society" is not something that does not change; instead, like all other social systems, it should be looked at as a society that undergoes frequent changes and reforms. He said that if we refuse to change and to reform, if the socialist specific systems are not reformed according to practical socialist experiences and to the needs of further developing the socialist society, and if we stick rigidly to the old mold, socialism will have no future. But socialist reform is a process of self-adjustment and self-improvement of the socialist system. Its goal is to reinforce the socialist system and give full play to the superiority of the socialist basic system. Thus, socialist reform in essence is not to abandon or change the socialist basic system but, on the premise of upholding the socialist basic system, to reform the socialist production relations, to change parts of the superstructure which cannot keep up with the development of the productive forces, and to abandon the rigid molds which no longer suit the country's real conditions and needs of continued development. It means establishing new political, economic, and sociocultural systems and functional mechanisms that not only better meet the demands of the socialist basic system, but also suit the country's real situation. Thus, a socialist country's specific systems can change as historical conditions change, but its socialist basic system is untouchable.

With respect to reform, whether we are talking about China or some other socialist country, there exist two basically opposite reform concepts. One looks at reform as reinforcing and perfecting the socialist system, and its objective is to establish a new mold of socialism that satisfies the demands of the socialist basic system. The other is to deviate from and to dismantle the socialist system. The goal of such reform, as centrally displayed in China, is a kind of "wholesale Westernization" as suggested by bourgeois liberalization, and in other socialist countries it is the practice of democratic socialism. A concrete analysis of some of the reform theories and practices proffered by some socialist countries in recent years and of the serious consequences brought by the flood of democratic socialist thought will show that democratic socialism's so-called reform actually runs counter to the demands of the socialist basic system.

Economically, the basic socialist economic system is the socialist public ownership of the means of production and the distribution of consumer goods and materials according to work. Mandated by this basic economic system, during reform, we must uphold the socialist public ownership system as the primary system while developing different economic components to satisfy the needs of different productive levels, and we must oppose privatization of the means of production. We must develop the socialist planned commodity economy and

insist on integrating economic planning with market regulation and oppose the mixed economy which practices free market economy and denies the primary role of the socialist public ownership system. We must uphold the distribution system in which distribution according to work plays the principal role and let everybody share in the country's prosperity, and we must oppose polarization. No matter what kind of reform, what kind of national condition, and what mold of socialism, these basic issues cannot be violated, nor can they be altered. Democratic socialism fundamentally denies the superiority of the socialist public ownership system and promotes the role of private ownership in the economic domain and advocates a completely free market economy and the setting up of a mixed economy with the market economy as its foundation. Every country that has started this kind of democratic socialist reform has lost little time in vigorously promoting privatization and a whole set of market economic measures and has quickly run into serious inflation, sharp increases in unemployment, and a series of other social problems which have produced a bunch of exploiters. The socialist basic system which has taken decades to set up is destroyed overnight. The series of so-called reforms implemented according to the economic doctrines of democratic socialism are fundamentally different from the socialist restructuring of the economic system. The socioeconomic system in the former case is essentially capitalist in nature.

Politically, it is an important goal and the mission of socialist modernization to build a highly socialistic democracy and a perfect socialist legal system. Thus, during reform, we must uphold the system of people's democratic dictatorship and perfect the People's Congress system to make sure that the people are indeed their own masters. We must oppose the bourgeois "tripartite separation of power" and the capitalist class's phony democracy, freedom, and human rights. We must uphold the Communist Party's control of state power and its leadership in the system of multiparty cooperation and continue to strengthen and improve the party's leadership and smooth out the relationship between the Communist Party and other political parties, and we must oppose political pluralization and the bourgeois multiparty system. Democratic socialism on the other hand uses Stalin's mistakes as an excuse to accuse proletarian dictatorship of "autocracy" and deny the country's class nature. It advocates political pluralization and the implementation of the multiparty system and bourgeois "tripartite separation of power" and attacks Lenin's doctrine on party building. It opposes democratic centralization and abandons the party's proletarian nature. Almost without exception, countries that practice democratic socialism have implemented the multiparty system, causing the rapid disintegration of the Communist Party. The Communist Party in many of these countries is no longer the ruling party, and party members and people of integrity are being persecuted.

What kind of restructuring of the political system is this? It is purely an attempt to change the countries' proletarian nature.

Ideologically, the basic task of socialist spiritual civilization as guided by Marxism is to improve the nationalities' quality and bring up a new generation of idealistic, moral, educated, and disciplined socialists. Not only is Marxism's guiding role an important part of our ideological construction, but it also determines the essence of the socialist spiritual civilization. It is an important guarantee that the power of leadership of the party and the state is truly in the hands of the proletariat. The basic principle of Marxism is an objective truth proven in practice. It is not only the mighty ideological weapon that guides the socialist revolution and construction but is also the operational compass for the socialist reform. Thus, during reform, we must strengthen the socialist spiritual civilization as guided by Marxism, hold fast to the socialist ideological ground, make Marxism our only guiding ideology from beginning to end, stand against the "theory of obsolescence" of Marxism, resist the bourgeoisie and the corrosive influence of all of its corrupt ideologies, and combat imperialism and "peaceful evolution." Democratic socialism on the other hand advocates pluralization of ideologies and suggests that Marxism is no longer capable of guiding the working class. Countries that practice democratic socialism started out criticizing Stalin and go on to refute Leninism and revise their constitutions and rewrite their party program. They publicly abandon the guiding role of Marxism and vilify the several decades of history of the people's struggle under the guidance of Marxism. All these demonstrate that on the ideological front, democratic socialism has surrendered to the bourgeoisie.

From the above analysis, it is clear that those countries which have implemented so-called reforms in the political system, economic system, and ideological realm according to democratic socialist theories have in fact surrendered completely to the bourgeoisie. These so-called reforms are definitely not probing for a new mold of socialism but are in fact diametrically opposite to the socialist reform and violate the socialist basic system and its essential characteristics. Their basic direction is regression into capitalism.

#### **Workers Under Capitalism Seen Eking Out Living**

91CM0353A Beijing ZHIBU SHENGHUO [PARTY BRANCH LIFE] in Chinese No 2, 3 Feb 91 pp 26-27

[Article by Huang Meilai (7806 5019 0171): "Understanding the Living Conditions of Workers in Capitalist Countries (Part 1)"]

[Text] People involved in liberalization have woven a web of fallacies around this matter. Some say the proletariat in capitalist nations these days is not poor but affluent. After a brief one-month trip to Hong Kong,

where he only had time to gain a superficial understanding through cursory observation, a professor came home and talked expansively about "rethinking" capitalism, proclaiming that "absolute pauperization is absolutely obsolete and relative pauperization is relatively obsolete." Therefore, properly understanding the material life of the proletariat in the postwar developed capitalist nations and clarifying the ideological and theoretical confusion created by bourgeois liberalization have become an unavoidable issue in socialist education.

#### **Understanding Comprehensively and Correctly the Theory of Proletarian Pauperization**

The material living conditions of the proletariat in developed nations have improved considerably since the war. This is an objective fact. Anyone who does not acknowledge this fact is not a materialist. However, the absolute pauperization and relative pauperization of the proletariat under capitalism is an economic law. As long as capitalism exists, this law applies. If anything, the living conditions of the proletariat in developed capitalist countries after the war proves that the theory of the pauperization of the proletariat is not obsolete.

#### **Why?**

Marx made this analogy, "If a house, however tiny, is surrounded by equally tiny houses, it can meet all society's housing needs. However, if a palace soars right next to the small house, the latter will be reduced to a shabby cottage, proving that its inhabitant does not care where he lives or is not demanding. Moreover, however much the house expands as civilization advances, as long as the palace next door also expands at a similar or more rapid pace, the inhabitant of the smaller house will feel less and less satisfied and more and more uncomfortable within those four walls. He would also be increasingly looked down upon" (*Selected Works of Marx and Engels*, Volume 1, p. 368). This graphic analogy explains the social content of pauperization scientifically, on the one hand, and illustrates the economic status and living conditions of the proletariat in developed capitalist countries to date, on the other. It tells us that our understanding of the concept of pauperization must not be removed from the historical materialist standpoint and that we must not just look at the material elements that maintain life and overlook the social and historical connotations of proletarian pauperization.

Defined comprehensively, relative pauperization, in my opinion, means that the incomes of the proletariat account for a steadily declining share of the national income of a capitalist country vis-a-vis the bourgeoisie. In other words, the proletariat is getting an even smaller share of the wealth it has created even as a greater portion is being exploited by the bourgeoisie, resulting in a yet higher surplus value rate.

The concept of the absolute pauperization of the proletariat has taken the brunt of the attacks from the international bourgeoisie as well as theorists at home who have been preaching bourgeois liberalization. One

of their ploys is to distort the scientific meaning of absolute pauperization to mean that the material life of workers gets worse and worse as capitalism develops. Then they would cite a host of facts—the real wages and living standards of workers in capitalist nations have risen significantly above pre-war levels, many worker households have cars, refrigerators, and color TV's—to declare categorically that the theory of "absolute pauperization is absolutely wrong" and "absolutely obsolete." This trick has indeed confused some young people and certain cadres who know little about Marxism, who take the written word too literally, or who do not really try to understand Marxism. To some extent, it has "worked." But the fact of the matter is that the writers of classical Marxist texts never interpreted "absolute pauperization" to mean that as capitalism develops, the proletariat's real wages (that is, the consumer goods, both qualitative and quantitative, that its wages can buy) and living standards become lower and lower. Instead it means that the material living conditions of the proletariat and working people deteriorate to such an extent that they cannot maintain a minimum standard of living for the time and place in question. The writers of Marxist classics conceded that as capitalism develops, the material life of the proletariat would follow an upward trend even as it is exploited more and more. Lenin said, "European history provides powerful testimony to this upward trend. For instance, you can compare the French proletariat of the late 18th century with its counterpart in the late 19th century, or English workers of the 1840's with English workers today." In short, so-called absolute pauperization means that the proletariat and working people cannot maintain a minimum living standard for the time and place in question. People who misinterpret absolute pauperization to mean that workers become more and more impoverished are either ignorant or have an ulterior motive. Needless to say, when we discuss absolute pauperization, we are not necessarily referring to one particular group of workers all the time, much less all the workers. We may be referring to one group of workers at one point in time and to some other group at another.

#### **Facts Have Borne Out the Truth of "Pauperization"**

There is not only relative pauperization but indeed absolute pauperization among the proletariat of developed capitalist nations to date, as demonstrated most strikingly in the following ways.

First, the real wages of workers in developed capitalist nations have been increasing at a slowing rate. In the 1970's, the first oil crisis sent the Western economies sliding into a recession, but the real wages of their workers still grew substantially on the whole. After 1980, however, real wages in most Western nations continued to increase but at a much slower rate. In Europe, real wages rose 3.2 percent annually on the average between 1973 and 1979. In the 1980's, on the other hand, real wages expanded less than 2 percent annually in most years. In 1982, the real wages of British workers were actually lower than in 1973. The real wages of American



workers have been slipping across the board since 1973, dropping 6.7 percent in just the past decade.

Second, although workers' living standards in developed capitalist nations have improved appreciably since the war, their wages have fallen relative to the gains in productivity and the expansion of the national income. In developed capitalist nations, the proletariat enjoys a smaller and smaller share of the wealth it has created, while the surplus value rate gets higher and higher. In just about every European nation, workers' wages made up a shrinking share of the GNP throughout the 1980's, from 64.9 percent in 1979 to 57.7 percent in Sweden, from 54.9 percent to 46.8 percent in Spain, from 59.1 percent to 55.8 percent in Britain, and from 55.8 percent to 53.6 percent in the Federal Republic of Germany. In other words, the capitalists' incomes from exploitation have risen sharply. In the United States, for instance, the industrial surplus value rate soared from 146 percent in 1947 to 263 percent in 1957. In Germany, it rose from 181.4 percent in 1950 to 276 percent in 1976. In Japan, it was 275 percent in 1951 and climbed to 443 percent in 1976. Clearly, workers are now more heavily exploited than before and exploitation by the bourgeoisie has increased greatly.

Third, the proletariat is an entity. In examining the living conditions of the proletariat in capitalist countries, we must also look at their unemployment rate. The unemployment rate in Western nations was stubbornly high throughout the 1980's, with a large number of long-term unemployed. According to statistics from the Organization of Economic Cooperation and Development (OECD), the unemployment rate in Britain was a high 9.5 percent in 1988. Elsewhere, it was 10.8 percent in France, 11.5 percent in Italy, and 11 percent in Belgium. The combined unemployment rate of all West European nations was close to 11 percent. In 1985-86, the total number of unemployed workers in the entire OECD was almost 31 million.

Particularly noteworthy is that the long-term unemployed (unemployed for a year and more) now account for a steadily rising share of all unemployed. In the FRG, for instance, the long-term unemployed constituted 32 percent of the unemployed in 1986, up from 16.2 percent in 1981. In Britain, it rose from 22 percent to 41 percent; in France, from 32.5 percent to 47.8 percent; in Italy, from 37.9 percent to 56.4 percent; and in the Netherlands, from 22 percent to 56.3 percent.

Fourth, by and large the real wages and working conditions of the proletariat in developed capitalist nations have indeed risen since the war, but only because the daily necessities and costs of living needed to maintain and restore the ability to work have changed. It is the outcome of the needs of capitalist exploitation and the class struggle. Workers' living standards may have gone up, but they are a far cry from the luxurious way of life of the monopoly capitalist and have risen just enough to keep the labor force at a level of reproduction for the time and place in question. The living standards of

workers are still lower than the average in society. The incomes of a considerable number of worker households still fall below the official poverty line. Unable to maintain even the minimum living standard, these households live in a state of absolute pauperization. In 1960, the U.S. Department of Labor put the living expenses for a family of four at \$6,000. Yet, a survey on 5,500 households in 1959 shows that 60 percent of them had annual incomes less than \$6,000 and 35 percent had incomes below \$4,200. According to figures provided by Hai-le (3189 0519), a U.S. bourgeois scholar, the minimum living expenses for a family of four were \$5,830 in 1959. His calculations show that the income of an average working-class family of four in December 1960 was only \$4,200, basically the same as figures released by the U.S. Department of Labor. At the time the U.S. Government acknowledged that the poverty line was \$4,200. In other words, the average American working-class family hovered at the poverty line, 60 percent of working-class families could not make ends meet, and 35 percent sank below the poverty line, unable to maintain the minimum living standard.

Some comrades are quick to dismiss this. They say, "Poor households in the West earn much more than our 10,000-yuan households. How can we say they cannot maintain a minimum living standard?" Their skepticism is not surprising, since they do not understand the situation in Western countries. Countries in the West are high-cost, high-consumption societies. In the West, taxes, rent, transportation, and health care take up more than two-thirds of a family's income. In 1988, Americans in urban areas spent \$5,000, \$4,500, and \$4,400 on housing, transportation, and health care, respectively, on the average, or \$13,900 altogether. Nationwide per capita spending was \$5,500. Based on the principles followed in determining the poverty line, one-third of the income should go to food, which means that one must cut back on housing and transportation spending. Since just one-third of the poverty-line income is to be spent on food, one must eat poorly both in quantity and quality. According to 1983 statistics, the official poverty line for a family of four was an annual income of \$10,178. With only one-third, or \$3,393, available for food, each member of the household could afford to spend a mere \$2.32 on food every day, or \$0.77 per meal, which could buy nothing more than a cup of coffee and a sandwich at the cheapest fast-food restaurant. Certainly nobody is talking about eating to one's fill here. Eating at home is a little bit more economical. We can thus see that poor Americans must not only pinch and save when it comes to housing and transportation, but must also economize on food and clothing.

Many workers in developed capitalist nations own cars. This is true. Bear in mind, however, that most of these cars were bought on an installment basis, using "borrowed" money. As we all know, the monopoly capitalist class in developed capitalist nations sells durable goods and houses on a hire-purchase basis in order to expand its market. To satisfy the basic needs of daily life,

workers have no choice but to buy on credit. Consequently, personal debt has assumed enormous proportions in developed capitalist nations. In 1979, for example, 51 percent of working-class households in Japan took out loans. In France, 59 percent of the workers borrowed short-term loans. Each year the American consumer devotes about 20 percent of his disposable income to pay off loans incurred in installment purchase plans. Between 1981 and 1987, personal debt in the U.S. soared from \$300 billion to \$600 billion. It must also be pointed out that the consumer who buys on credit pays a hefty price in high interest rates. Interest rates in the United States start at 12 percent and climb to 18-24 percent, at times even as high as 66 percent. The longer the maturing period of a loan, the higher the interest rates. This is usurious exploitation through and through.

To prove that living below the poverty line means living in real poverty and not enjoying a comfortable standard of living that is higher than ours, let us compare the poverty line with the income of the average American

family. Statistics show that each year between 1959 and 1983, the income of the average American family was approximately two to three times that of the income at the poverty line, a gap that widened notably in the last 25 years. This fact shows that families living below the poverty line are in a state of absolute pauperization, their level of consumption being less than half of that of a middle-income family. A large percentage of households below the poverty line make less than 50 percent of the income at the poverty level. In 1975, for instance, 7,733,000 people, or 29 percent of all those living in poverty, earned less than 50 percent of the income at the poverty line. By 1983, 13,583,000 people, or 38.5 percent, of all poor Americans earned less than 50 percent of the income at the poverty line. Obviously, these people live in absolute pauperization.

(In the concluding segment of this article: The development of the capitalist economy has intensified the poverty of the proletariat and the "welfare state" is hypocritical exploitation.)



## NATIONAL AFFAIRS, POLICY

### Categorizing, Prioritizing Industrial Enterprises

91CE0398A Chongqing TIGAI XINXI [SYSTEMIC REFORM NEWS] in Chinese No 1, 15 Jan 91 pp 20-21

[Report by Huan Xin (3883 0207), edited by Tang Jian (0781 0256): "The State Plans To Categorize, Prioritize Large and Medium-sized Industrial Enterprises"]

[Text] According to departments concerned, the state is formulating a method for categorizing large and medium-sized, state-owned industrial enterprises, and assigning priorities to them.

#### I. The Principles and Criteria Used To Categorize and Prioritize Large and Medium-sized Enterprises

Except for cases where state industrial policies explicitly restrict and prohibit development, large and medium-sized state-owned enterprises (including enterprise groups) are tentatively to be put into four categories—each with a priority—in accordance with their roles in the national economy, their level of economic efficiency, and other factors.

In the first category are enterprises whose basic conditions for normal production should be guaranteed by the state, departments, and localities. To be placed in this category, an enterprise must conform to the following criteria: 1) It must be in an industry whose production receives key support from industrial policies. 2) It must have an important impact on the overall situation of the national economy, and play a significant role within its own industry. 3) It must bear responsibility for a rather large part of the mandatory state plan. 4) Within its own industry, it must occupy an advanced position with respect to economic efficiency, the rate of material consumption, the ratio of output value to cost, the profit and tax rate on capital, and the profit and tax rate on wages.

The second category applies to enterprises whose basic conditions for normal production should be given priority arrangements by the state, departments, and localities. To be placed in this category, an enterprise must conform to the following criteria: 1) It must be in an industry whose production receives key support from the state's industrial policies. 2) It must bear responsibility for some part of the mandatory state plan or, if not responsible for any part of the mandatory state plan, it must make important contributions to the state plan and to the people's livelihood. 3) Within its own industry, it must occupy a rather advanced position with respect to economic efficiency, the rate of material consumption, the ratio of output value to cost, the profit and tax rate on capital, and the profit and tax rate on wages.

The third category applies to enterprises for which localities (provinces, municipalities, autonomous regions, and cities with independent decision-making

authority) and departments provide priority arrangements. The concrete principles and criteria should be determined by the localities and departments, taking into consideration their own actual situations.

The fourth category applies to large and medium-sized, state-owned industrial enterprises which, although they are not in the three categories above, conform to the industrial policies. It is also necessary to ensure the normal production of enterprises in this category as conditions allow.

For small enterprises, all localities and departments should also select some key industries to categorize and prioritize in accordance with state industrial policies. They should formulate relevant policies, including those on closures, temporary shutdowns, mergers, and restructurings.

#### II. Policy Measures for Key State Support to Enterprises in the First and Second Categories

1. The State Planning Commission, in coordination with relevant departments, provinces and municipalities, should arrange and realize the main production conditions—such as energy, transportation, and capital—which first-category enterprises need to fulfill mandatory state plans. For electric-power enterprises, they must mainly guarantee coal supplies and transportation. For steel and non-ferrous metal enterprises, they must mainly guarantee supplies of coal, electricity, and transportation. For other enterprises, they must mainly guarantee electricity and transportation. The raw and other materials needed by the above-mentioned enterprises should, in principle, be arranged and transported as is done now. When enterprises encounter difficulties with production activities, the problems should be resolved by dispatches according to the established priority list. On the basis of having met the guarantee for first-category enterprises, priority should be given to preparing the basic conditions needed for normal production in second-category enterprises.

2. Focus on supporting technological renovation and technological development in first- and second-category enterprises. The State Planning Commission should coordinate with relevant departments and localities and give priority support to the scale of investment, project programs, bank credit, international government credit, and development expenditures on science and technology.

3. Based on need and feasibility, first- and second-category enterprises should be encouraged and supported to gradually increase their strength. A group of small and medium-sized enterprises should be brought along and lead in technological renovation and technological development, using such means as joint ventures, mergers, contracting, stock holding, and leasing. This would promote enterprise development and readjustment of enterprises' organizational structures within their own industries. The State Planning Commission will coordinate with relevant departments in formulating

concrete measures for encouraging large and medium-sized key enterprises—which are suited to organizing enterprise groups—to develop such groups and conduct enterprise mergers. With regard to mergers and restructurings of state-owned enterprises, the method of administrative transfer may also be considered, after full supporting analysis.

4. While assigning categories and priorities to enterprises according to the industrial policies, banks should make first- and second-category enterprises the target of their support. All departments and localities should first coordinate actions according to the priorities given first- and second-category enterprises, and prepare annual plans and production reports. No unit or person may withhold capital, energy, transportation, or raw materials allocated to first- and second-category enterprises. It is necessary to resolutely suppress all unreasonable fees and levies.

### Price Fluctuations in 1989, 1990 Analyzed

91CE0396A Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 1, 15 Jan 91 pp 2-8

[Article by Xiao Siru (5135 0935 1172), Duan Qiuping (3008 3061 1627), Li Jiande (2621 1696 1795), Xu Yi (1776 3015), and Zhang Yu (1728 1342): "Research Report on Current Price Problems"]

#### [Text] I. Characteristics and Causes of Price Fluctuations

Between 1988 and 1990, the overall price level in China fluctuated dramatically. The overall retail price level jumped 18.5 percent in 1988 over the preceding year and climbed another 17.8 percent in 1989, hitting a post-1949 high. In early 1990, just about every sector in the nation expected double-digit price increases. As it turned out, the overall retail price index edged up a mere 2.1 percent in the first 10 months compared to a year ago and is expected to increase about three percent for the year as a whole, the smallest annual increase since 1985. The extensive fluctuations in price levels in the past two years epitomize underlying problems in China's economy and provide us with much food for thought.

#### The Price Plunge Mystery

It was a mystery why prices took a nosedive in 1990. Because 1990 was filled with factors, whether cost-driven or demand-led, that would seem to push up the overall price level.

First, the state unveiled more price adjustment measures involving a higher amount of money in 1990 than in any other year. From the fourth quarter of 1989 to late November 1990, the state raised the passenger and freight charges for rail, waterborne, and air transport, increased the prices of table salt and salt industrial products, increased the procurement prices of such farm products as cotton, oil-bearing crops, sugar crops, and flue-cured tobacco, raised the foreign exchange list price, raised the prices of textile products twice, increased

postal rates, and increased the price of sugar. These 11 price increases raised prices by over \$60 billion yuan, more than in any other year since reform began. If half of these price adjustments were reflected in retail prices, they would jack up the overall retail price level by four percent and even higher with the chain reactions that occurred two years ago. Second, beginning in the fourth quarter of 1989, the scale of credit expanded steadily. In early 1989 it was decided that a total of 160 billion yuan worth of new loans would be issued for the entire year. As it turned out, 60 billion yuan worth of lending had been completed by October, followed by an additional 120 billion yuan in the fourth quarter, bringing the amount of new loans for the year to over 180 billion yuan. Loans continued to be made at an accelerated pace in 1990. Between January and October alone, new lending amounted to 170 billion yuan and estimates are that new lending for all of 1990 will top 230 billion yuan, a record in new loans in recent years. This type of over-distribution of credit, bank loans outpacing deposits, create a "deficit," and normally raises price levels.

Third, since the beginning of 1990, workers' wages and miscellaneous subsidies have continued to climb. Between January and October, the wages of urban workers totaled 22.1 billion yuan. For the year as a whole, the incomes of worker households are projected to increase 15 percent over last year, far higher than the gain in production. This should be another factor boosting the national price level.

Fourth, the above-mentioned factors have greatly increased the amount of money in circulation. By October 1990, the money supply was already 30 billion yuan, or 15 percent, more than the same period a year ago, at a time when output rose just five percent or so. According to the law of money supply, when the money supply increases faster than output, the excess will be absorbed in the form of higher prices.

Clearly, the slide in prices in 1990 seemed to go against logic. What has happened poses theoretical researchers as well as policy-makers with a tricky and urgent problem. If we cannot satisfactorily explain this economic anomaly, then how are we to come up with scientifically valid economic policies? To answer the above question, we must first understand the special characteristics of the fluctuations in the overall price level in recent years.

#### Special Features of Price Fluctuations Since Economic Rectification

##### 1. Characteristics of Price Fluctuations by Period

The regular monthly price index (comparing prices in a certain month with prices in the same month a year ago) does not directly reflect price changes from month to month. Therefore we have calculated a base index for retail prices and county fair trade prices for 1984-1990, using the overall price level of 1983 as our base. We

found that fluctuations in the overall price level in recent years fall into three periods.

Before January 1986, a period of mild inflation when the overall retail price level inched up 0.6 percentage point each month on the average.

Between June 1986 and January 1989, a period of marked inflation. The overall retail price level rose 2.8 percent monthly on the average. Price increases were most rapid between July and September 1988 when they climbed 3.8 percentage points each month. One quarter alone accounted for 60 percent of the increase in the entire year.

Since January 1989, the overall price level has been basically stable. The retail price level retreated from its peak and began fluctuating, now going up, now going down. If we take February 1989 as the base period, the overall price level has been fluctuating between two and three percent, sinking to its lowest point since 1989 in June 1990. The period around February 1989 marked a turning point in the movement of the price level as it switched from rapid increase to basic stability.

## 2. The Seasonal Characteristics of Price Fluctuations

Our analysis shows that the prices of county fair trade are characterized by notable seasonal variations. Generally speaking, prices rise between March and August, reaching a seasonal peak in the latter month before retreating gradually month by month. Prices are at their seasonal lowest between December and March the next year. As the overall price level rises, seasonal price differences also increase. Right now prices differ by as much as 20 to 30 percent from season to season. County fair trade accounts for about one-quarter of social commodity retail sales. Seasonal variations should normally affect the retail price index. Our analysis, however, shows that there is no obvious relationship between the seasonal variations in the overall retail price level, on the one hand, and the seasonal variations in the level of county fair trade, on the other. Seasonal variations in the overall retail price level are relatively insignificant. Moreover, the retail price level peaks between December and February the next year and bottoms out seasonally around June. (The period between December and February the next year is the peak selling season for most consumer goods, a seasonal characteristic mirrored in the variation curve of the total social retail sales.) Just the opposite happens with the latter. One explanation is that the retail price index represents the seasonableness of most commodities, thus disguising the seasonal characteristic of the county fair trade price index. Another explanation is that as far as the county fair trade is concerned, month-by-month comparability is limited (because both the quantity and variety of commodities do change considerably from month to month.) Consequently, month-by-month comparisons and fixed-base indices are not very reliable. After discounting seasonal factors, the price level has actually entered a period of basic stability since January 1989.

## 3. The Structural Characteristics of Price Fluctuations

Structural characteristics demonstrate themselves in three ways:

Price fluctuations by product type. The early part of 1989 was the watershed in price structural changes. Before that period, price fluctuations were characterized by the sharpest increase in county trade fair, followed by food prices and the prices of other consumer goods. Prices that rose more slowly were those of agricultural capital goods and service fees. After January 1989, the reverse was true. Service fees rose the fastest compared to the same period a year ago, followed by agricultural capital goods, ordinary consumer goods, and food. The prices of country fair trade showed the smallest increase.

Urban price fluctuations versus rural price fluctuations. Before the first half of 1989, rural prices increased more slowly than urban prices. In 1988, the retail price level in townships soared 21.3 percent above the level a year ago, while its rural counterparts rose just 17.1 percent. After February 1989, rural prices increased progressively faster than urban prices month after month. For 1989 as a whole, township retail prices went up 16 percent on the average while rural retail prices jumped 18.8 percent. This gap continued to widen through 1990.

Price fluctuations by region. In 1988, prices rose faster in the southeastern coastal regional than in the interior, with places like Guangdong, Fujian, and Hainan posting the sharpest increases. Beginning in the second half of 1989, the reverse occurred. Price increases in the southeastern coastal region were smaller than those inland.

These structural characteristics of price fluctuations show that the overall price level has stabilized by and large in the past couple of years, even declining in some cases. To a certain extent, the price level has retreated. Changes in the prices of farm products were the most important factor behind price fluctuations in the past few years.

## The Causes of Price Fluctuations

Inflation in China in 1988 has been much discussed in the theoretical community. Here we focus on the intrinsic reasons that caused the overall price level to stabilize and rebound somewhat. In China, economic factors that cause prices to fluctuate can be divided into three groups: demand, supply, government price control. Accordingly, the state of the market and prices since 1989 are the outcome of a variety of factors working together synergistically: intensified direct government price control, the extent to which prices are allowed to float freely, insufficient effective demand, and changes in the structure of aggregate supply. Our analysis, however, shows that the stability of the price level in the past two years has been caused by several different factors. If we examine price fluctuations in the context of changing macroeconomic policies, we will see that price fluctuations since early 1989 fall into three different stages depending on what primarily caused them. In the first



stage, which lasted from January to May 1989, it was direct government price control that mainly stabilized the overall price level. In the second stage, from June to November 1989, it was insufficient effective social demand that was mainly responsible for the decline and stabilization of the overall price level. Between November 1989 and October 1990, the structure of social products more than anything else caused the overall price level to decline and stabilize. Analyzing the causes of price fluctuations this way, that is, by stages, helps answer the question posed at the beginning of this article.

#### Stage 1 (January-May 1989) Price and Market Analysis

Beginning in late 1988, price stabilization became the principal objective of government economic policies. Governments at all levels adopted control measures in a multi-pronged approach to achieve this objective. Essentially, provincial, municipal, and autonomous regional governments were directly given an annual price objective responsibility system aimed at restraining their tendency to raise prices. Price control power was removed from local governments at all levels and monopoly was imposed on some key capital goods and consumer goods. A price ceiling was slapped on certain products outside the plan. Price subsidies were increased. Where the price of a commodity had risen too much, it was lowered. Where price differentials were excessive, they were also lowered. The prices of commodities that did not sell well were reduced as appropriate. Price control and inspection was tightened in all sectors and regions. Although these administrative measures did not directly decrease commodity prices, they did stabilize prices at their existing level.

It should be pointed out that the move to tighten credit with administrative measures between October and December 1988 hit the economy very hard. Earlier in September, the amount of new loans issued was already reduced to 4.9 billion yuan. On top of that, lending further shrank 9.1 billion yuan in October, only to be followed by an increase of 3.3 billion yuan in November. In December new lending amounted to 45.9 billion yuan. When the government turns credit on and off in turns administratively, it throws social reproduction into chaos. The excess of money supply before the fourth quarter of 1988 had already been absorbed by de facto price increases and runaway production. As a result, the amount of money in circulation had basically fallen in line with production circulation. So when the government came in and tightened credit administratively, it inevitably set off a chain of reactions involving debts and making payment difficult. Slashing credit by 10 billion yuan may create 50 billion yuan worth of triangular debt, perhaps 100 billion yuan further down the road if we factor in retrenchment in capital construction. This is a major cause of rising production costs and declining profits. Meanwhile prices did not go down as expected. This is the dire consequence of not complying with the objective law of money circulation.

#### Stage 2 (June-November 1989) Price and Market Analysis

The credit crisis caused by triangular debts had become a serious economic problem by the second half of 1989. The government came to the aid of enterprises by making a large number of working capital loans. At the beginning this worked quite well. Soon afterward, however, a variety of measures aimed at cutting demand were firmly enforced in the second half of 1989. Effective demand shrank, sending the market into a slump. Most of the working capital loans issued by the government were tied up in finished industrial products sitting idle in warehouses. According to a survey by the Industrial and Commercial Bank of 40,000 state-owned industrial enterprises, they increased output value by 23.1 billion yuan, or 4.9 percent, between January and November. Funds tied up in unsold goods rose 66 percent to 34.2 billion yuan. In October and November alone, banks gave enterprises another injection of working capital loans totaling 15.8 billion yuan. Yet enterprise funds tied up in finished products rose 9.5 billion yuan in the same period, swallowing up most of their working capital. This is why increasing credit is no fundamental solution to the debt problem.

Insufficient effective demand was what affected the market and prices most during this period, mainly in three ways.

One, under-investment. Beginning in 1989, deep cuts were made in capital construction investment and technological transformation investment. By year end, social fixed assets investment was off 50 billion yuan compared to a year ago, while actual workload fell 20 percent or so. With the multiplier effects, production plummeted and the market lost steam.

Two, insufficient household consumption demand. On the household consumption front, as the real income of some urban and rural residents fell, their purchasing power also declined. In 1989, peasant per capita net income was 602 yuan, up 10.5 percent over 1988, but actually down five percent after taking price increases into account. The income of urban residents nominally rose 14 percent, but really fell 2.3 percent if we factor in price increases. The resultant lowered income expectations and price expectations together with the introduction of value-guaranteed savings accounts pushed savings up 35.1 percent, further dampening real purchasing power.

Three, social institutional consumption declined. Nominally social institutional consumption increased 4.2 percent to 69.3 billion yuan in 1989 compared to a year ago. In reality, after factoring in price increases, consumption declined, which reduced real demand for commodities.

The combined effect of the above-mentioned factors was that the market weakened and industrial production slipped. During July-December 1989, the market was more sluggish than at any other period in recent years.

Social commodity retail sales fell 18 percent compared to the same period a year ago or 26.8 percent after taking into account price increases. It takes two months for the decline in retail sales to be reflected in industrial output. So while industrial output still managed to show a 6.1 percent gain in August, the gain had been replaced by negative growth (-2.1 percent) by October. In December it expanded a mere 3.4 percent over the same period a year ago.

Because production and sales faced a severe downturn, the market prices of most commodities started falling.

### Stage 3 (1990) Price and Market Analysis

The market slump and output decline in the second half of 1990 caused a string of economic and social problems, sending a strong signal to the government. Beginning in the fourth quarter of 1989, therefore, stimulating the market became the leading objective of macroeconomic policies. New loans in that quarter totaled 120 billion yuan. Subsequently additional loans were made to large and mid-sized enterprises, investment controls were relaxed, interest rates were twice lowered, controls on technical transformation investment and social institutional consumption were eased to boost ultimate demand and open up markets, without notable success, however.

Between January and September 1990, total retail sales slipped 0.6 percent compared to the same period in 1989. The rebound in production was also very slow. Prices remained stable, with some declining. Industrial profits continued to fall. The market remained dull and prices were either flat or down even as everything was done to stimulate demand and significantly increase the money supply. No longer can we continue to explain this phenomenon by blaming insufficient monetary purchasing power. In our opinion, what caused the market to stagnate, prices to stay flat, and the failure of money to translate into real purchasing power during this period of time was changes in the structure of aggregate supply resulting from bumper harvests in the past two years and the fact that the mix of industrial products is out of sync with the urban demand structure. Structural incompatibility is what basically shapes the market at the present moment.

Gross agricultural output value rose 6.3 percent in 1989 compared to 1988, exceeding the average growth rate (5.9 percent) of agriculture since 1979. Grain output was the best ever. Growers of other crops also reaped bumper harvests. That year the state revised procurement prices for farm products upward. Also, the effects of increased yields were not fully reflected in 1989. As a result, the prices of farm products were largely unchanged. In 1990, however, after two bumper harvests in a row, the organization of the farm products market was at a low level and its limited self-regulating ability came to the fore. Since the procurement of the 1990 summer crop, the farm products market has been in a grip of a crisis

involving granaries and difficulties in procurement payments. There have been problems implementing the "guaranteed price" policy. Crop market prices, such as grain fell. According to a survey of the Jiangxi market, the prices of farm products fell 8.2 percent in the third quarter compared to the same period in the preceding year. The price of grain fell eight percent. The number of live pigs procured was off 7.2 percent. Market meat prices were down 8.8 percent.

Market demand for farm products has these characteristics. Since 1985, the consumption of staple and non-staple food in urban areas largely held steady. Cash incomes rose in 1990, but they had no effect on food consumption. In the countryside, while the consumption of nonstaple food was more elastic, the demand for self-grown farm products has dropped in the last two years due to a slump in real incomes. At a time of rising output, the inelasticity of food consumption in cities and the elasticity of nonstaple food consumption in the countryside have combined to drag down the prices of farm goods, thereby lowering the real incomes of peasants. According to a statistical study in Jiangxi, peasants' cash incomes between January and October fell 18.79 yuan, down 4.6 percent compared to the same period a year ago, of which 11.6 yuan can be attributed to the decline in the prices of agricultural byproducts and 7.63 yuan to a downturn in nonagricultural incomes. The decline in peasant income has weakened purchasing power on the rural market drastically, making it even more anemic than its urban counterpart. As to why price increases were sharper in rural areas than in cities in 1990, for one thing, the prices of agricultural capital goods showed a robust gain (six percent) and, for another, price control was weak on industrial goods in the countryside.

The real cash purchasing power of urban residents rose in 1990 but the market remained sluggish. The main reason is that the mix of industrial products is out of sync with the demand structure of urban residents. When average income is low, low-level consumption is saturated. These are the basic consumption characteristics: 1) The consumption of consumer goods of ordinary quality and style has reached a saturation point. 2) People cannot afford upscale and high-price consumer goods. 3) Consumer choices are strictly limited. The supply structure developed over the years has these characteristics: 1) The market is flooded with consumer goods that are poor or mediocre in quality and design. 2) There is a shortage of high-quality, medium-priced, and new consumer goods. Hence consumption is down, sales off, and the market sluggish. On the other hand, service charges and savings increased sharply as a result of service consumption and savings transfer. Given this pattern of consumption choices, interest rates have little regulatory effects on savings.

Amid this basic supply-and-demand pattern of industrial and agricultural products, raising the wages of urban workers will not translate into a corresponding increase in purchase demand. Extensive price adjustments too

have failed to lift retail prices for these three reasons: 1) Some price increases have not actually been carried out because the market is sluggish. 2) The ex-factory prices of some capital goods and industrial products were raised but the price increases cannot be passed on since the market for finished products is sluggish. 3) The level of market prices fell even as the level of state regulated prices rose, offsetting the effects of price increases.

In the present situation, increasing lending substantially has had no clear effects either. Because the market is in the doldrums, enterprises have little enthusiasm for borrowing. Even when they are given a loan, they balk at making an investment. Instead, the loan is withdrawn from circulation and returned to the bank through credit channels, forming new deposits. Thus even though the scale of lending has been widened, there have been no corresponding increase in real purchasing power and no multiplier effects on investment. 2) When the market is in a slump, most of the new working capital issued in the form of loans is converted into funds tied up in unsold goods. 3) At a time when enterprise profits are drying up and the stress is on stability, loans are used to make up losses and not for investment purposes or to make purchases.

#### Conclusion

Our analysis above basically answers the question posed earlier in this article. Early 1989 marked the turning point at which soaring prices began to level off and fall. There are three major groups of reasons why prices have stabilized in the past two years and they are of varying degrees of importance depending on the time period in question. At the beginning, direct price control played a leading role. Later it was insufficient demand. Later still, it was deep-seated supply-demand incompatibilities. Right now the market is soft and prices stable even as we are pumping large sums of money into circulation. This is true mainly because the purchasing power of peasants has dropped following the slump in the prices of farm products, because people are not buying owing to the incompatibility between the rigidity of the industrial structure and the saturation of low-level consumption, and because capital goods are moving slowly due to limited real investment. Thus money is being withdrawn from the market through credit channels, resulting in high savings.

Thus the centerpiece of any policy to further nudge the economy onto the track of sustained and steady growth is to raise the real income level of peasants, improve the mix of industrial products, and appropriately increase the scale of investment while steering investment in the right direction.

The basic difficulties are: 1) To adjust the product mix in such a way that it satisfies the demand structure of the industrial structure, enterprise behavior, and government behavior. Such an adjustment will not do much in China in the near term and therefore cannot influence the market in 1991 in any major way. 2) To increase

peasants' earnings in a way commensurate with the increase in output, we must solve the issue of who should assume the risk that goes with the prices of farm products. If the government is held responsible, it will unavoidably have to shell out more money in subsidies. At a time when the treasury already finds it hard to make ends meet, there is not much room for maneuver. Citizens may assume the risk, which would be a politically risky move. 3) Where actually will investment come from? With profits falling, enterprises are now much less able to invest and much less eager to raise their own investment dollars by borrowing. If the government does the investing, its deficit is bound to get even worse. Moreover, it will not be able to recoup its investment in the next few years. But the most likely course of action is for the government to further increase its deficit.

Basically this is how we see price trends in 1991: prices will remain flat and rise somewhat. How prices will fluctuate depends primarily on three important factors. First, harvests. If there is another bumper crop, the price level will remain stable. If the opposite happens, prices will go up. Second, the rate at which the economy rebounds. Beginning in the fourth quarter of 1990, a host of figures has shown that the Chinese economy has started to bounce back. How fast the economy turns around will decide whether prices will go up or down. Third, fine-tuning the force of macroeconomic regulation and control. How strict macroeconomic regulation and control is directly affects the overall price level. Judging from the practice of reform in the past few years, price fluctuations in the final analysis depend on ups and downs in the economy. In 1991, the economy may go either one of two ways. In one possible scenario, after adjusting the force of macroeconomic control, all reform will continue, and industrial output and market sales will grow at a reasonable pace. As a result, the entire economy will expand in a positive direction. In the other scenario, despite modifying the force of macroeconomic control and regulation, neither the industrial structure nor the mix of products will be adjusted effectively, and slow growth and depressed prices will continue, inducing a new round of inflation. We hope that the first scenario will become reality through the effort of all quarters.

#### Dual-Track Pricing for Capital Goods Examined

##### Beidaihe Conference Discusses Problems

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[By Ling Lianping (0407 5114 1627): "Summary of Conference Discussion on Dual-Track Pricing for Capital Goods"]

[Text] From 10 - 12 October 1990, the Pricing Institute of the State Bureau of Pricing convened a conference at Beidaihe to discuss dual-track pricing for capital goods. Comrades from 25 provincial, municipal, and regional pricing institutes took part. The conference carried out



enthusiastic discussions on resolving difficulties facing the dual-track pricing system for capital goods and on conditions needed to merge the system, on views toward a merger, and on merger methods. Following is a summary of the discussions.

### **I. Should Resolving the Issue of Dual-Track Pricing for Capital Goods Become the Focus of Current Price Reform?**

One opinion held that, at present, the disadvantages of dual-track pricing is becoming increasingly prominent and serious. It is disturbing market order, affecting the normal operation of economic life, and becoming an obstacle to readjusting industrial structure and to further growth of the capital goods market. With the advent of improvement and rectification and owing to the "double tight" policy, the economy has gradually cooled, the market has weakened, prices are stable with a slight decline, and inflation has been effectively controlled. At the same time, owing to insufficient demand, dual-track price spread for capital goods has narrowed. This presents a fine opportunity to resolve the issue of dual-track pricing for capital goods. It is for this reason that we should make it the focus of current price reform.

Another opinion held that, owing to weakening of the market, narrowing of the dual-track price spread, and alleviation of various contradictions caused by dual-track pricing, the issue is no longer so important. The principle contradictions that should now be faced are how to start up the market, readjust industrial structure, and improve economic efficiency of enterprises. There are also comrades who propose making the price of agricultural products the focus of current price reform. Comrades who support this view think that the inflation that has occurred in recent years has caused the price of agricultural products, in particular grain prices, to go downhill, the peasants to suffer a loss in profits, and the issue of agricultural prices to go unresolved. This will be extremely harmful to the future growth of agricultural production.

### **II. Resolving Difficulties and Overcoming Obstacles Facing Dual-Track Pricing for Capital Goods**

Comrades at the conference were of the opinion that resolving the issue of dual-track pricing for capital goods was an important task facing price reform in China. At present, the drawbacks to the system are quite prominent. However, conditions are not ripe for totally merging the dual-track system into a single-track system. To do so would throw the reform of the system into a dilemma. Given China's present institutions and economic climate, resolving the issue of dual-track pricing for capital goods would run into a number of difficulties and obstacles.

1. In the last few years, overissuance of currency and too much capital construction have produced demand-pull and cost-push inflation. After the general policies of

improvement and rectification were implemented, the market weakened and a general tightening of funds occurred. However, costs have continued to rise and enterprises have found themselves in extreme difficulty. To effect a merger under these circumstances would cause even bigger cost increases for large- and medium-sized state-run enterprises, which receive planned allocations of a large amount of capital goods. It would be especially detrimental to production growth for these enterprises. This is one of the difficult problems that the merger process will undoubtedly encounter.

2. Under the fiscal system of "serving meals to different diners from different pots" and enterprise contracts, we must change the extremely difficult pattern of benefits formed by the dual-track pricing system of capital goods.

3. Enterprises in China have different ownership systems and are of different sizes. There are large differences in their management standards and technological levels. This results in wide cost disparities for the same products. Even though there are a number of contradictions and frictions under the dual-track pricing system, the economy can still operate. If we were to suddenly merge to a single track and eliminate the protection of a split market, many enterprises would for a time be unable to adapt.

4. Another difficulty associated with dual-track pricing for capital goods is an industrial structure that is seriously lacking in logic.

5. The widely existing issue of fictitious costs also poses a big problem in dealing with dual-track pricing for capital goods.

6. Enterprises still do not possess the principle market skills. They do not know how to react correctly to market signals.

7. The degree of market growth is low, and its function unsound.

8. Enterprise efficiency is too deficient.

### **III. Views on Dual-Track Pricing for Capital Goods**

Comrades at the conference felt that the issue of dual-track pricing for capital goods could not be resolved in three to five years, or even be completely resolved in 10 years. It could only be comprehensively resolved after a long-term, gradual process. Comrades at the conference expressed the following views concerning dual-track pricing for capital goods.

1. "Four combinations." The main content of this view is: (1) Combine readjustment of planned pricing with freeing up pricing. Following the substantial success of improvement and rectification, we must fully promote certain measures to improve planned pricing. However, some products should also be progressively freed up to allow a certain increase in the market regulation of prices. (2) Combine proceeding by key points annually with proceeding by stages. Raising the prices of such

basic products as coal, crude oil, electric power, steel products, lumber, transport, and nonferrous metals is a key point of capital goods price reform during the Eighth Five-Year Plan. Because the effect of these products on the market price of commodities and on the psychology of inhabitants differs, the items that come out each year must be selectively combined in groups to avoid creating too much of a shock. Considering that there are quite a few outstanding accounts for certain basic products, it is not possible to raise them to a proper level in a year's time. This is why it is necessary to raise them by stages. (3) Combine raising prices within the plan with readjusting the plan proportions. (4) Combine proceeding by product with proceeding by area.

2. "Gradually proceeding by categories, and combining control and management and reduction and merger." Gradually proceeding by categories means adopting methods for merging the two tracks based on different varieties of products, differing conditions of market competition, availability of raw materials, elasticity of supply and demand, and importance to the national economy. "Control and management" mean the state's use of macroeconomic levers, such as financial administration, tax revenues, credit, interest rates, wages, and rates of exchange, to control and influence investment, production, markets, and consumption, thereby balancing overall supply with overall demand. At the same time, adopting the three levels of administrative of guidance of industrial policies, trade and industry programs, and administrative intervention would bring microeconomic activities of enterprises in line with macroeconomic goals. In addition, we must also adopt a sound legal system to standardize various economic behavior. In this way, by adopting macroeconomic economic, administrative, and legal control and management, a good economic climate and market environment is created for unifying the dual tracks. "Reduction and merger" mean either reducing the distance between the two tracks and the numbers of the varieties or unifying the two tracks. When conditions are temporarily unsuitable for merger, we must strengthen macroeconomic regulation and control and restrain price rises outside of the plan, and at the same time, systematically raise planned prices to reduce the gap between prices within and prices outside the plan, thereby creating conditions to merge the two tracks. When conditions are suitable, we must bring the plan track and the market track together as quickly as possible.

3. "Proceeding according to business and industry, according to product, according to region, and according to links." (1) Proceeding according to business and industry. The upward adjustment of prices and charges of a small number of state-owned monopoly businesses and industries, such as petroleum, electric power, railroads, airlines, postal services, and housing, are set by the state, and the prices of machinery and electronic products businesses and industries use a combination of regulated prices and prices that are freed up. The two tracks for these methods must be gradually merged. (2)

Proceeding according to product. This means implementing market regulation to control advanced products which are mainly state regulated, intermediate products which are both state regulated and freed up, and minor products which are mainly freed up. (3) Proceeding according to region. This has two levels of meaning. One refers to products a considerable portion of which are produced in one region and which are allocated nationwide. They must be merged into the planning track and, as soon as possible, have their prices uniformly fixed by the state. The other level refers to certain capital goods produced and sold locally in remote regions at prices that have been freed up. Their prices are regulated by the market. (4) Proceeding according to links. We must deal with production links and circulation links each on their own merits by relaxing price controls in the production sector and implementing strict control of differential rates in the circulation sector.

4. "Passive merger of the two tracks." Actively merging the two tracks consists of doing so as soon as conditions are suitable or, if they are unsuitable, creating suitable conditions, whereas, passive merger of the two tracks advocates resolving each problem as it arises. Since the difficulties in resolving problems related to the dual-track system are huge, it cannot be done in a short period of time. If the planning system is not thoroughly reformed and economic structure is not properly readjusted, dual-track pricing will be difficult to eliminate.

#### IV. Methods for Merging the Two Tracks for Certain Specific Products

Comrades at the conference were of the opinion that different methods based on the different circumstances of the products involved must be used to merge dual-track pricing for capital goods.

1. Some businesses and industries should not be involved in dual-track pricing but actually are. Administrative methods should be used to explicitly prohibit this. To ensure that these businesses and industries are able to continue to exist and grow, their prices should be adjusted to a proper level.

2. A number of nonferrous products under monopolies can, on the basis of combined average prices or prices approaching market prices, form new uniform prices, thereby eliminating the dual-track pricing. The new uniform prices can be readjusted once each year in accordance with supply and demand changes and with cost changes. The necessary time can also be readjusted at any time.

3. Planned prices for electric power should be increased to the proper level as soon as possible, the dual track eliminated, and a system established whereby electric power prices are changed based on changes in coal prices. At the same time, penalty prices should be imposed on enterprises using electric power consumed in excess of average advanced norms for the entire industry.



4. The present proportion of planned prices is now quite small. However, given their importance, products whose prices should be fixed by the state, can be reformulated as planned prices on the basis of presently existing market regulated prices.

5. Certain products, by continuing to expand negotiated pricing, can gradually make the transition to market regulated prices.

6. There are both large- and medium-sized key enterprises and many local small enterprises and township and town enterprises engaged in the production of certain important materials and goods. The total volume of output from the small enterprises and from the township and town enterprises is large. Utilization of certain important materials and goods is also like this. Because of dual-track pricing, the situation with respect to circulation is extremely complicated for these types of materials and goods. As a result, merging the two tracks for them is also extremely complicated. It would involve reorganizing the channels of circulation, setting up a new market order, and further reform of the pricing system and methods. For example, coal belongs to this category of important materials and goods. This is why we have to give it more comprehensive consideration.

#### System Should Be Phased Out

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[By Luo Jingfen (5012 4737 1164) of the State Planning Commission Research Center: "Proposal for the Gradual Elimination of 'Dual-Track' Pricing for Capital Goods"]

[Text] "Dual-track" pricing for capital goods refers to simultaneously adopting two prices for the same heavy industrial product. One price is fixed by the state, and the other by the market. This results in two pricing levels, a high and a low, to occur for the same product under the same trading conditions. Normally, fixed prices imposed by the state are within the plan and therefore are called planned prices. They include fixed prices and floating prices (benchmark prices, ceiling prices, and ground floor protection prices). Prices outside the plan are imposed by the market (including market prices limited by the state). However, in actual practice, many types of fixed prices within the plan are called "dual-track" prices. This is because of the different high and low price levels stipulated for certain products whose prices have been fixed by the state, for example, normal prices within the plan and high prices within the plan stipulated for petroleum, natural gas, and the coal marked-up prices within the plan for state-controlled coal mines put in effect for exceeding prescribed capacities, for exceeding base figures, and for exceeding the plan. Thus, broadly speaking, "dual-track"

pricing denotes the dual tracks within and outside the plan and also several types of multiple-track pricing within the plan.

After only a brief few years, "dual-track" pricing for capital goods has almost penetrated the entire array of heavy industrial products. According to statistics on factory prices for heavy industrial products, 95.1 percent of product sales from the extractive industry, 74.6 percent from the raw and semifinished materials industry, and 41.4 percent from the manufacturing industry were, in 1988, based on prices fixed by the state (including local incidental prices). Broken down by sectors, 72.9 percent of the products from the metallurgical industry (71.2 percent of which were steel products), 95.8 percent from the electric power industry, and 94.4 percent from the coal industry were sold at prices fixed by the state. The price levels fixed by the state have not changed much in the past several years. Since the fourth quarter in 1984, this has caused inflation to occur and an ever-widening price spread in dual-track pricing for capital goods. In 1985, during the initial implementation of "dual-track" pricing, market prices for capital goods were approximately 30-50 percent higher than prices fixed by the state. By the end of 1988, the gap between the two prices was already from 1- to 4-fold. For example, the market price for cold-rolled sheets was 4-fold higher than the planned price, and the market price for caustic soda was 4.2-fold higher.

Because "dual-track" pricing for capital goods seriously violates the principle of equal exchange, it would be impossible to overcome its drawbacks as long as the system itself exists. As the practice becomes widespread, its drawbacks become more and more recognized by people. As for the system itself, the fairly obvious drawbacks are mainly: Exerting strong pressure on state planning, expanding production outside the plan, shifting sales from within the plan to outside the plan, causing a large volume of natural resources within the plan to flow into the market, affecting implementation of state planning, lowering the rate at which contracts for state supplied goods are honored, and affecting the supply of goods and materials for key state construction projects and key growth sectors. In buying raw and semifinished materials and fuel and power, differences in high and low price formations make it impossible to compare enterprise costs between different enterprises of the same industry at different times. In selling products, differences in high and low price formations make it impossible to compare enterprise profit levels between different enterprises of the same industry at different times. This essentially destroys business accounting and precludes uniform standards of measurement in the appraisal and examination of enterprise economic efficiency. Having aggravated the chaos of the circulation sector and initiated the suspension of buying and selling for intermediate links, it has formed a breeding ground for corruption and seriously abetted unfair allocations. At present, people keenly feel that "dual-track" pricing for capital goods has now become an obstacle to further

growth of the capital goods market and the deepening of reform. Eliminating the system as soon as possible has become a widespread cry and was written into the "Resolution on Further Improvement and Rectification and Deepening of Reform" passed by the Fifth Plenary Session of the 13th CPC National Congress.

"Dual-track" pricing is an objective economic phenomenon and the product of a certain economic climate. It is not totally the result of subjective government policy decisions. In addition, because it has been in practice for several years, it has formed a pattern of new benefits. That this benefits pattern is not completely without logic makes transforming the "dual track" into a "single track" seem even more difficult.

Having for the last six months worked on resolving the issue of "dual-track" pricing for capital, we have learned that the following are the main points of difficulty.

1. During the process of merging the two tracks for pricing capital goods, we have to prevent large increases in commodity prices. Lowering excessively high increases in retail commodity prices constitutes an important goal of improvement of rectification and maintains social stability, thereby promoting an important aspect of sustaining, stabilizing, and coordinating the growth of the national economy. At present, certain industries, such as coal, have suffered losses throughout the industry. In resolving the "dual-track" issue and effecting a merger, we must correspondingly find a solution to these losses to enable enterprises which have accumulated funds to utilize them for development and transformation. This way, the merged prices would inevitably have to be higher than the present combined average prices. The chain reaction from increasing prices of source products inevitably affects successor products, giving impetus to rises in overall price levels and adding to the difficulties of merging the two tracks.

2. Revenue derived from the price spread of products sold under "dual-track" pricing is now going for legitimate uses. It will be difficult to abruptly eliminate it after a merger. For example, the price-spread revenue derived from replacing crude oil and heavy oil in the conversion from heating oil to heating coal was already designated for measures to make the conversion, and the price-spread revenue from the petroleum industry exceeding base-figure production for crude oil was already designated for oil-field exploration. After "dual-track" pricing for capital goods has been eliminated, some enterprises could derive less price-spread revenue than they did before the merger. A way will have to be found to compensate and replace the difference. However, state finances have been in extreme difficulty in recent years. It is not likely that increased funds will be allocated.

3. Large urban industries, large-scale key enterprises, and key construction projects will be under heavy attack. Their endurance is limited. A large portion of raw materials and fuel needed for production by large urban

industries and large key enterprises and building materials such as steel products, lumber, and cement needed by key construction projects are under unified distribution by the state based on planned prices. After pricing for capital goods has been merged, production costs for these key enterprises will increase. Their ability to assimilate and absorb these increases is limited. Likewise, it would be inadvisable to make large increases in commodity prices. This would place these enterprises in a predicament and would be incompatible with the general policy of further vitalizing large- and medium-sized state-run enterprises.

4. We must properly arrange supply channels for important raw materials and fuel required by collective enterprises and township and town enterprises. Collective enterprises and township and town enterprises have undergone rapid growth in recent years. At present, most of the important raw materials and fuel consumed by these enterprises are taken care of through the market. If, after the merger of capital goods pricing, certain capital goods are still in short supply, they will have to be channeled into state unified distribution. Goods and materials departments responsible for unified distribution of capital goods are confronted with more than 1 million collective enterprises nationwide. How, according to industrial policies and organizational choices, they are to be supplied to satisfy their various production and construction needs and how also to put an end to black market trading need to be resolved during the merger of capital goods pricing.

If we are to eliminate "dual-track" pricing for capital goods, impose one price for one commodity and put an end to black market trading, we essentially must have an economic environment in which overall supply and overall demand are in a rough balance. "Dual-track" pricing will only disappear by establishing a widespread, relatively relaxed economic environment in which the seller's market of high prices that exceed the plan and are outside the plan withers away. However, we cannot effect a rough balance of overall supply and overall demand within a short period of time. If, during improvement and rectification and under conditions where overall demand still exceeds overall supply, we are to gradually resolve the issue of "dual-track" pricing for capital goods, we now must do our work based on the following aspects.

1. Strictly controlling demand, further reducing the differences between supply and demand, and alleviating the contradictions between supply and demand. We must continue to adhere to the double-tight policy on financial credit, hold down financial expenditures that are too big, and gradually eliminate financial deficits. We must control the size of credit, readjust the credit structure, and effect currency issuances gradually so as not to exceed the needs of economic growth. Continuing to control the extent of investments will prevent consumer demand from increasing too rapidly. If, while simultaneously maintaining an appropriate degree of production growth, we adjust product mix and control

indiscriminate development of the manufacturing industry, we will alleviate the crisis with energy and raw and semifinished materials.

Under conditions of somewhat improved aggregate balance and when certain heavy industrial products under "dual-track" pricing have sustained a rough balance between supply and demand for a relatively long period, we must not lose the opportunity to eliminate "dual-track" pricing for these products.

2. Putting into effect single prices for heavy industrial products where one commodity has multiple prices within the plan. Normal prices within the plan and high prices within the plan are all uniformly stipulated by the state. Merging these categories of multiple prices into one would be somewhat easier than merging the two tracks of planned pricing and market pricing. In order to reduce resistance to converting multiple prices into one, enterprises whose earnings are proper should be protected as much as possible and their need for legitimate expenditures guaranteed. On the basis of this requirement, it is generally appropriate to put into effect combined average planned prices. For example, in the next two years, we could combine price readjustments. First, we could change the multiple prices of coal under unified distribution to a single price and later gradually eliminate the varieties of products with multiple prices within the plan.

3. Select an opportunity for appropriately raising planned prices. At present, most planned, at-the-factory prices of heavy industrial products tend to be low. The profit tax rate on funds for the coal, electric power, building materials, and railroad industries is lower than the national average, having only a negative correspondence, respectively, of 6.3 percent, 17.2 percent, 92.7 percent, and 56.3 percent to the national average. Coal and petroleum exploitation have suffered losses throughout the industries. Some of the factory prices for steel products within the plan are lower than the average costs of the steel mill. Consequently, we have to gradually raise their planned prices in stages and in groups. Of course, when raising prices, we have to do it as efficiently, with as little shock, and with as few subsidies as possible to avoid having the retail price index destroy demand for state annual planning. During improvement and rectification, we can consider first appropriately raising price levels for crude oil and heavy oil that are within the plan's normal prices, merging the multiple prices for coal within the plan, and appropriately raising the combined average at-the-factory, planned price of coal.

4. Strengthening market management while improving and rectifying circulation. There are too many companies involved in the circulation of capital goods, and their operations are chaotic. This is mainly why the price spread is too large in "dual-track" pricing and why prices outside the plan are driven up too high. We must firmly and thoroughly implement the "CPC Central Committee and State Council Resolution on Further Sorting Out and Rectifying Companies" and disband and merge a

number of companies which are not qualified to deal with important industrial products such as steel products, pig iron, copper, aluminum, lead, zinc, coal, heavy oil, lumber, cement, sulfuric acid, nitric acid, soda ash, caustic soda, polyvinyl chloride, and polyacrylonitrile. We must resolutely divest goods and materials companies which take advantage of the loopholes in "dual-track" pricing, engage in profiteering, and seek excessive profits.

In order to rectify and establish a normal market order and strengthen management and guidance for the circulation of important capital goods outside the plan, we have to set up a public sales system for important capital goods outside the plan. During improvement and rectification, we could first implement a public sales system for products such as steel, pig iron, coke, lumber, and nonferrous metals which enterprises sell on their own. With respect to the sale of these products, sellers would have to make public to each other the source and quantity of their goods, the price of their products, their sales prospects, and their method of settling accounts. If they made sales at state-approved unified markets, they could not in any way engage in trading activities outside public sales markets. It would have to be clearly stipulated that capital goods sold at public sales markets are to comply strictly with state pricing policies, and products traded which have ceiling price limits stipulated by the state must not exceed their ceiling prices. The same product at the same market at the same time would have to be sold to all consumers at the same price. It would not be permitted to impose multiple prices for different business prospects, and it would be strictly forbidden to demand cash or goods beyond the price.

### Forum Discusses Furthering Enterprise Reform

91CE0505A Beijing JINGJI RIBAO in Chinese  
16 Mar 91 p 3

[Article in "Theoretical Bearings" column by Meng Xianglin (1322 4382 2651), Wang Ai (3769 8842), and Wang Xiaoyun (3769 2556 0061): "Well-Known Figures of Theoretical, Economic Circles Hold Forum in Beijing To Probe Ideas for Deepening Enterprise Reform"]

[Text] On 6 March Wang Guangying [3769 0342 5371], Ma Hong [7456 3163], Wang Jue [3769 3778], Wu Jinglian [0702 2417 8834], Wang Haibo [3076 3189 3134], Dai Yuanchen [2071 0954 2525], Zhou Shulian [6650 0647 5571], and Chen Qingtai [7115 3237 3141], well-known figures of economic and theoretical circles, as well as some young and middle-aged theoretical workers assembled in a hall to hold a forum on a currently popular topic—deepening reform and invigorating large- and medium-sized enterprises. On the basis of making a full analysis of the current situation in reform and the current state of enterprises, the forum participants stressed the following basic ideas on reform and invigoration.



**1. Insist on making enterprise reform the centerpiece.** Enterprise reform is the central link of all reforms. From the long-term, fundamental view, enterprise reform plays the decisive role in enhancing enterprise vitality, and is also an important component part of reform as a whole. Invigoration of enterprises cannot be done in isolation, but must depend on thoroughly carrying out reform as a whole. Under certain conditions the external environment will become the contradiction for enterprise reform, and so we must make enterprise reform the centerpiece, and effect comprehensive improvement and complete-set reform.

**2. Uphold the fundamental idea of market trends.** In the process of changing from a product economy to a commodity economy, the enterprises depend on the market to act as the driving force. To invigorate the large and medium-sized state-run enterprises, we must make them face up to the market and enhance their consciousness in order to take part in market competition, and overcome the idea of waiting for and depending on the state and government to tilt toward their protection. We must expand the influence and role of market mechanisms on enterprise production and operations. We must strengthen the enterprises' ability to bear market pressures and risks, while building an environment for fair competition.

**3. Further perfect the enterprise property rights system.** In the Eighth Five-Year Plan period, the contract system will remain the main form of enterprise operations, but while it is being upheld it must also be further perfected, so that property rights restraints are strengthened, short-term behavior is overcome, and operations contracts are changed to property contracts. Thus the suitable separation of an enterprise's external ownership rights and operations rights will change into a suitable separation of its internal ownership rights and operations rights, so that the enterprise is made truly responsible for state property. At the same time we must vigorously explore and perfect the stock system—this new operation—and the reform of an enterprise's property rights in which the stock system is integrated with the enterprise's property.

**4. Develop enterprise groups in an organized manner.** Under the conditions in which market development is not yet complete, in developing enterprise groups we must make a point of avoiding blindness and precipitate action. Our enterprise groups must meet the following standards: become the market's main part of independent production and operations; become the main part of the adjustment of the industrial structure and the enterprise organizational structure; gradually become the main part of investment; and in the future become the main force that enters the international market. Through development of enterprise groups and the deepening of enterprise reform, including exploration of the stock system, we must experiment with group models of the form of mixing stocks and controlling stocks; protect and insure the normal increase in the value of state-owned property; set up an appropriate interests distribution and property rights system; and attain the objectives of displaying the superiorities of large- and medium-sized

enterprises, reshuffling the enterprises' organizational structure, and effecting an optimal reconstitution of the production factors.

**5. Perfect the internal reform and management of enterprises.** Enterprises now really face many difficulties, but they cannot sit and wait for state policies that are preferential and that tilt their way, and cannot wait for a change in the macroeconomic environment; but should, with the internal enhancement and perfection of various management systems with "strictness" at their core, improve their overall quality, and should correspondingly carry out a complete set of reforms internally, smooth out relationships, and set up normal, effective operating mechanisms so that they truly become vigorous, efficient economic organizations.

**6. At the appropriate time step up the pace of reform.** Under the conditions of a loosening in the economic environment, some reforms cannot be carried out. Certain difficulties and problems appearing in economic life precisely reflect the urgency of reform and also provide the turning point for reform. The invigoration of large- and medium-sized enterprises is the central link and indicator of the deepening of reform. We should seize the opportunity to create conditions and at the appropriate time step up the pace of reform, so that the large- and medium-sized enterprises, in the aspects of enterprise system, operating mechanisms, distribution relationships, and property rights system, will be truly invigorated and become, in reality as well as name, the main force for promoting the development of the national economy.

This "Forum on Deepening Reform and Invigorating Large and Medium-Sized Enterprises" was jointly sponsored by the Editorial Department of the All-China Federation of Industry and Commerce's ZHONGGUO GONG SHANG [CHINA INDUSTRY AND COMMERCE] and the Editorial Department of ZHONGGUO GONGYE JINGJI YANJIU [CHINA INDUSTRIAL AND ECONOMIC STUDIES].

### Social Commodities Purchases, Sales, Stocks

HK2803092091 Beijing CEI Database in English  
28 Mar 91

[Text] Beijing (CEI)—Following is a list of the purchase, sales and stocks of social commodities in Feb. 1991, released by China Statistics Information Consultancy Service Center:

	(in rmb 100 million yuan)		
	1-2/91	2/91	2/90
1. Home purchase	2594.2	1168.2	
a. Industrial goods	962.9	444.0	414.3
b. Agricultural and side-line products	280.0	110.8	97.2
c. Used goods			
2. Home sales	2910.1	1336.6	
3. Stocks by Nov. 30	3670.2	3320.7	
incl. foreign trade dept.	477.9	492.9	

## February Social Commodities Retail Sales

HK2803091891 Beijing CEI Database in English  
28 Mar 91

[Text] Beijing (CEI)—Following is a list showing the total value of retail sales of social commodities in Feb. 1991, released by CSICSC [China Statistics Information Consultancy Service Center]:

	Value (in rmb 100 m. yuan)		
	1-2/91	2/91	2/90
Retail Sales	1526.9	758.0	636.3
1. Variety			
a. Consumer goods	1414.8	705.1	574.6
including: selling to residents	1286.9	646.1	524.3
b. Means of production for peasants	112.1	52.9	61.7
2. Sales channels			
a. State-owned	622.3	303.0	246.9
b. Collectively	453.4	229.7	211.5
including: supply and marketing co-op.	219.6	113.6	110.5
c. Jointly owned	7	3.3	2.4
d. Individual	292.4	145.4	120.6
e. Sales by peasants to nonagricultural residents	151.8	76.6	54.9

## Large Department Stores Record Sharp Increase in Turnover

OW0304090691 Beijing XINHUA in English  
0821 GMT 3 Apr 91

[Text] Beijing, April 3 (XINHUA)—Thirty-five large department stores in China reported a 36.2 percent increase of turnover for the first two months of this year, as compared to last year's period.

The Beijing-based ECONOMIC DAILY reported today that the stores turnover volume for the period exceeded 1.94 billion yuan.

The paper said that sales of various consumer goods increased sharply during the two months.

Statistics show that clothing sales jumped to 137 million yuan, up 120 percent over last years period. At the same time, shoe sales increased by 68.3 percent, while sales of household electrical appliances rose by 20 percent and gold jewelry by 73.7 percent.

The market for expensive cigarettes, wine and cakes was also brisk, according to the newspaper.

The paper attributed the sharp sales increases to an abundant supply of famous brand high-quality consumer goods.

## February Sales of Social Commodities

HK0404110891 Beijing CEI Database in English  
4 Apr 91

[Text] Beijing (CEI)—Following is a list of domestic net sales volume of social commodities in February 1991, released by the China State Statistical Bureau:

Item	Unit	Volume	
		Feb 1991	Feb. 1990
Grain	10,000t	689.1	604.7
Edible veg. oil	10,000t	34.2	28.4
Pork pig	10,000hd	916.8	779.3
Egg	10,000t	7.5	6.1
Aquatic prod.	10,000t	21.4	17.6
Salt	10,000t	80.5	79.0
Sugar	10,000t	32.2	43.7
Cigarette	10,000c/s	145.9	229.8
Liquor	10,000t	52.7	57.1
Cotton cloth	100m.m.	2.1	2.5
Cotton and synthetic blend	100m.m.	1.0	1.2
Synthetic fabric	100m.m.	0.6	0.7
Wool fabric	10,000m	1770.8	1590.0
Silk and satin	10,000m	3350.4	3719.6
Knitted underwear	100m.pc	0.6	0.5
Soap	10,000c/s	292.6	360.2
Detergent	10,000t	5.0	6.5
Sewing machine	10,000set	46.4	47.4
Wrist watch	10,000p.c	321.9	294.9
Bicycle	10,000	195.8	184.9
Semi-cond. radio	10,000set	81.9	77.4
TV set	10,000set	209.9	156.5
Tape recorder	10,000set	81.8	80.9
Electric fan	10,000	48.4	61.2
Washing machine	10,000set	55.0	47.1
Refrigerator	10,000set	26.9	25.0
Coal	10,000t	1440.2	982.0

## Producer Goods Market To Be Promoted

OW2304133491 Beijing XINHUA in English  
1202 GMT 23 Apr 91

[Text] Wuhan, April 23 (XINHUA)—China is determined to develop its producer goods market in a bid to meet the demands of the country's planned commodity economy.

This was recently disclosed by an official from the State Administration for Industry and Commerce during a national meeting on market control held in Xiangfan City, Hubei Province.

The official noted that industry and commerce administrations at all levels will attempt to support the local governments and enterprises and encourage them to join together to promote the market.

The administrations will assist large and medium-sized firms in their efforts to produce products in accordance with market rules.

## PROVINCIAL

### 20 Shaanxi Enterprises Experiment With Reform

91CED400A Chongqing TIGAI XINXI [SYSTEMIC REFORM NEWS] in Chinese No 1, 15 Jan 91 p 16, 31

[Report by the Shaanxi Provincial Systemic Reform Commission, edited by Mo Rong (5459 5554): "Shaanxi Province Further Perfects Reform Measures for Large Enterprises"]

[Text] Recently, Shaanxi Province perfected and readjusted 12 special policies enjoyed by 20 large, provincial-level enterprises who were pioneers and test cases for reform.

After readjustment, the 12 policy regulations are:

1. The factory director nominates or the party committee recommends which factory-level deputy chief administrative officers and "three chiefs" should be hired or fired in an enterprise. The organizational and personnel departments conduct an investigation. After a collective discussion at the party and administrative leadership meeting called by the factory director, the factory director decides on the hirings and firings, and reports to the relevant departments for record-keeping purposes. For cadres in branch factories, sections, and workshops, competitive bidding should be used, and people should be hired according to merit; the aforementioned procedure may also be used, with the factory director deciding the hiring and firing.

The factory director makes proposals about enterprises' institutional arrangement and personnel size in accordance with production needs and workload. The factory director decides these only after a discussion at the meeting of the factory management committee. Enterprises are allowed to set their own hiring conditions and hiring quotas. In areas selected by labor departments, enterprises may conduct open hiring, selecting people according to merit (rural hiring should be done only after obtaining permission in accordance with regulations). Optimization of the labor composition is to be actively promoted, and internal hiring should be practiced.

2. Enterprises' total wages should be linked to economic efficiency, and the method of linking wages to economic efficiency should be improved and perfected. On this basis, enterprises may independently determine various forms of internal wages and various bonus distribution methods in accordance with their own situations. They

should support distribution according to work while increasing the differences between distribution grades.

Based on investigation and study, and on completing the categorization and grading of positions and work types, enterprises should actively explore and propose plans for establishing base-wage systems that accommodate enterprises' special features. After approval from provincial labor departments, these should be tried out.

3. Enterprises are entitled to adjustments and reductions in mandatory state plans in cases where there is a lack of guaranteed materials or a lack of demand. They may independently plan the production of products demanded by society.

4. For products whose prices are regulated by the State Council or the province, it is necessary to implement fixed state prices and guidance prices. For remaining products, other than those whose markups are under the reporting system, enterprises may set prices independently, according to the market situation. Price departments should provide timely help and solutions when enterprises make reasonable proposals and demands for price adjustments.

5. Enterprises have the same authority to manage fixed asset investments as do provincial-level offices. For productive capital construction projects valued at under 5 million yuan, and for technological improvement projects valued at under 10 million yuan, enterprises may give approval independently, reporting to the provincial planning commission and economic commission for record-keeping purposes.

6. Enterprises may retain 2 percent of their sales revenues to be used as a technological development fund. This will be calculated as a cost and will be earmarked as a special fund.

7. They should implement the foreign trade agent system. Where conditions warrant it, enterprises should be granted the right to import and export directly. Enterprises may select their own ports and negotiate directly with foreign businesses. That amount of foreign exchange generated by enterprises that exceeds the base figure may be retained by the enterprises, except for that portion that must be turned over to the state in accordance with regulations.

Enterprises may decide independently to work with foreign businesses in joint production, processing of imported materials, and contract labor. With approval, they may also operate overseas offices and joint ventures.

8. Enterprises may make independent decisions about overseas fact-finding missions and about negotiating and signing agreements. They must report directly to the provincial government for approval. After examination, the overseas missions will pay the necessary negotiating expenses.

9. Enterprises may independently choose and change banks. To change banks, they must negotiate for approval from



their bank. Based on their own decisions, operations, and risks, enterprises may issue stocks both internally and externally, and they may hold each other's stocks.

10. Enterprises are entitled to reduce the size of their accounting units, establish internal banks, independently expand their cooperation, and organize enterprise groups.

11. Enterprises may practice "one factory, many systems," with enterprises owning the fixed assets and working capital created through profit retention. Enterprises should be allowed to collectively operate logistical support departments, and carry out independent accounting and individual responsibility for profits and losses.

12. Enterprises' surplus personnel should establish collective enterprises that have independent accounting and are individually responsible for profits and losses. They should enjoy the preferential tax treatment enjoyed by newly established urban and township collective enterprises. For those who still have problems after the tax reduction or exemption period ends, special consideration—pending approval—may still be given in accordance with regulations on competent tax-collection management.

# Yunnan Publishes 1990 Statistical Communiqué

91CE0492A Kunming YUNNAN RIBAO in Chinese  
5 Mar 91 p 2

[Article entitled "Statistical Communiqué on 1990's National Economy and Social Development Issued by Yunnan Province's Bureau of Statistics"]

[Excerpts] Led by the provincial party committee and the provincial government, people of all nationalities diligently implemented the general policy of rectification and improvement and thorough reform and struggled arduously and achieved gratifying results in social and economic developments in 1990. Preliminary figures show that Yunnan's GNP topped 34.9 billion yuan, a 6.0 percent increase compared to 1989; its national income was 31 billion yuan, 5.7 percent higher than 1989, and undertakings in the areas of education, science and technology, culture, and public health were successful too. The national economy took another step further for the better amid rectification and improvement and played a positive role in helping to stabilize the province's political and social situations. The main economic problems encountered during the year were: market sales were slow to recover; manufactured goods produced by industrial enterprises continued to stockpile; enterprises continued to incur heavy losses; economic efficiency continued to decline; potential inflationary pressure continued to grow.

## I. Agriculture

We had a bumper harvest. In 1990, because localities paid special attention to agriculture, measures proved

effective, and good weather, farming, forestry, animal husbandry, sideline production, and fishery all saw substantial growth. For the year, the GVAO [Gross Value of Agricultural Output] was 16.848 billion yuan, a 5.4 percent growth over 1989. Specifically, output value of the planting industry grew 4.5 percent; forestry, 6.7 percent; livestock industry, 7.8 percent; sideline production, 4.0 percent; and fishery, 3.7 percent.

Among the major agricultural products, grain output topped 10,612,100 tons, 562,100 tons more than the previous record of 10.05 million tons set in 1984. This sets a new record for Yunnan. Output of all cash crops, except for flue-cured tobacco which had a lower yield due to natural disasters, saw across the board increases.

Output of major agricultural products is as follows:

	1990	Increase Over 1989 %
Grain	10,612,100 tons	6.3
Oil Crops	133,100 tons	29.0
rapeseeds	96,500 tons	43.6
Sugarcane	6,618,800 tons	20.1
Flue-cured tobacco	436,000 tons	-4.5
Tea	44,800 tons	4.9
Silkworm cocoons	2,500 tons	13.6
Fruit	319,700 tons	-6.8

Forestry management made new progress, and output of major forest products increased. In 1990, Yunnan planted 4.253 million mu of forests, 8.4 percent more than 1989. It produced 67,300 tons of natural rubber, 9.8 percent more than 1989. Forest fire prevention work was strengthened, and reckless over-cutting of trees was curtailed.

The livestock industry saw steady development, and production of major livestock products continued to increase.

The total output of major livestock products and the number of livestock on hand are as follows:

	1990	Increase Over 1989 %
Pork, beef, and lamb output	747,400 tons	9.4
pork output	710,200 tons	10.0
Milk production	72,900 tons	9.5
Number of porkers slaughtered	8,973,700	9.0
Number of hogs on hand at year end	20,649,100	3.2
Number of sheep on hand at year end	7,223,800	-0.9
Number of draft animals at year end	9,297,500	0.8

Fishery saw continued development. In 1990, Yunnan produced 46,000 tons of aquatic products, 4.3 percent more than 1989.

Agricultural production conditions improved, and there was increased use of farm machinery. At the end of 1990, farm machinery had 6.488 billion watts of mechanical capacity, 6.1 percent more than at the end of 1989. It had 16,200 large- and medium-sized tractors, 3.6 percent fewer than 1989; 141,300 small and manual tractors, 10.6 percent more than 1989; 17,500 trucks, a 4.2 percent increase. It had 685 million watts of mechanical irrigation and drainage capacity, an increase of 4.4 percent, and the effective irrigated farm area was 1,054,200 hectares, an increase of 3.4 percent. For the year, 555,400 tons of chemical fertilizers were used, an increase of 6.8 percent. Electricity consumption in the rural areas was 1.249 billion KWh, a 5.0 percent increase.

The rural economy saw steady development. The province's rural society produced 23.685 billion yuan's worth of goods in 1990, 6.6 percent more than 1989. Specifically, the output value of rural industry, construction industry, transportation industry, commerce, and food and beverage industry as a percentage of the total output value fell from 29.3 percent in 1989 to 28.9 percent in 1990 while the planting industry's share rose from 70.7 percent to 71.1 percent.

## II. Industry

Despite such adverse conditions as sluggish sales and overstock of goods, industry managed to sustain some growth. The 1990 GVIO was 33.932 billion yuan, a 7.0 percent growth compared to 1989. Specifically, industrial output at the township level and above was 31.389 billion yuan, a 6.9 percent increase over 1989. A breakdown of the GVIO shows that industries under the ownership of the whole people system grew 7.1 percent; collective-owned industries grew 6.2 percent; individual-owned industries grew 15.7 percent; industries of other economic categories shrunk by 14.2 percent. The national autonomous regions' GVIO was 9.254 billion yuan, an 8.7 percent increase compared to 1989. Light industry produced 17.886 billion yuan's worth of goods, a 9.7 percent increase compared to 1989, and its heavy industry produced 16.046 billion yuan's worth of goods, a 4.4 percent increase. The development of Yunnan's superior industries contributed significantly to stable industrial development, and in particular, the tobacco industry's GVIO topped 9.309 billion yuan, increasing 16.7 percent over 1989. The product mix improved, and energy, raw materials, and products to support agriculture also saw fairly significant increases. But readjustment of the structure of the industrial sector itself and of the product mix remains an arduous task.

Total output of major industrial products is as follows:

	1990	Increase Over 1989 %
Yarn	39,700 tons	-0.9
Cloth	178,210,000 meters	-0.5
Wool fabric	521,700 meters	35.5
Sugar	509,000 tons	9.7
Crude salt	324,000 tons	-13.3
Cigarettes	4,423,400 cases	8.6
Finely processed tea	35,000 tons	6.2
Machine-made paper and cardboard	157,400 tons	3.4
Bicycles	340,300 units	-20.5
Televisions	130,400 sets	18.5
color TVs	55,000 sets	10.7
Household washing machine	340,000 units	-40.1
Household refrigerator	381,000 units	-57.0
Sewing Machines	112,000 units	19.5
Raw coal	21,901,700 tons	0.4
Power generating capacity:	12.428 billion KWh	8.9
hydroelectric power	7.365 billion KWh	24.6
Steel	800,100 tons	10.8
Manufactured steel material	662,900 tons	7.2
10 types of nonferrous metals	208,800 tons	4.4
Cement	4,648,400 tons	2.7
Industrial lumber	1,185,900 cubic meters	-7.4
Plate glass	1,201,700 heavy crates	-13.2
Sulphuric acid	408,100 tons	19.9
Caustic soda	25,000 tons	5.8
Farm-use chemical fertilizer	901,900 tons	11.2
Power generating facilities	15,000 kilowatts	-77.4
Metal cutting machine	4,517 units	11.0
Automobile	6,131 units	-38.1
Small tractors	18,500 units	6.6

Due to sluggish sales and poor enterprise management, enterprise economic efficiency fell. 1990 saw a huge overstock of manufactured goods produced by local-budgeted, state-run industrial enterprises. The amount of funds in use at the end of the period increased 34.2 percent compared to 1989, and it took 126.9 days for circulating funds to turn over, compared to 117 days in 1989. Production cost of comparable goods rose 7.5 percent over 1989, and losses incurred by enterprises increased 83.8 percent.



#### Fixed Asset Investments and the Construction Industry

Fixed asset investments rebounded. In 1990, society as a whole completed 7.83 billion yuan's worth of fixed asset investments, an increase of 13.0 percent compared to 1989 after deducting commercial housing as a noncomparable factor. Out of this amount, units under ownership of the whole people completed 5.207 billion yuan of investment, a 24.8 percent increase compared to 1989, and this includes 3.436 billion yuan completed by the local people-owned units, a 27.9 percent increase. The remaining fixed asset investments were completed by collectively-owned units, which accounted for 1.433 billion yuan, a 6.9 percent increase, and by individuals, which invested 1.194 billion yuan, a 1.1 percent decrease compared to 1989. In 1990, the people-owned system funded 5,508 capital construction and renovation and transformation projects, 168 more than in 1989.

The investment structure improved somewhat. In 1990, units under the ownership of the whole people system invested 1.872 billion in technological transformations, which represents an increase of 19.7 percent over 1989 and accounts for 36.0 percent of the people-owned units' total fixed asset investment. The people-owned system also invested 2.763 billion yuan in the infrastructure, 19.3 percent more than in 1989. Specifically, the share of investment in production-oriented constructions increased from 64.9 percent in 1989 to 65.3 percent; investment in farming, forestry, animal husbandry, fishery, and water conservancy departments increased from 8.3 percent to 8.9 percent; investment in transportation and post and telecommunications increased from 11.5 percent to 13.2 percent; investment in the energy industry accounted for 28.4 percent and continued to account for a fairly large share of the total investment.

In 1990, Yunnan completed 1.003 billion yuan's worth of investment in 27 large- and medium-sized capital construction projects already in progress; eight of the construction projects and single projects have been completed and have gone into production. Capital constructions added the following productive capacity: 250,000 kilowatts of power generating capacity, 600,000 tons of coal mined, 10,000 cubic meters of timber cut and shipped, 7,800 meters of airport runway, and 200,000 tons of tap water per day.

The people-owned construction enterprises completed 1.946 billion yuan's worth of construction work, an increase of 9.4 percent compared to 1989. Overall labor productivity was 12,670 yuan, an increase of 12.7 percent. There was a 10 percent reduction in the number of collective construction teams in the cities and towns.

Geological survey and prospecting work were a remarkable success. The Geological and Mineral Resources Bureau completed 110,100 meters of drilling and discovered eight new mines; new reserves were confirmed for five major types of minerals.

#### IV. Transportation and Post and Telecommunications

The 1990 transport capacity of Yunnan's various transportation systems is as follows:

	1990	Increase Over 1989 %
Cargo turnover capacity	23.901 billion ton-km	6.1
Railroad	9.391 billion ton-km	6.7
Highway	14.453 billion ton-km	6.2
Water transport	50 million ton-km	-31.9
Air transport	7 million ton-km	unchanged
Passenger turnover capacity	8.411 billion person-km	-10.5
Railroad	1.722 billion person-km	-21.4
Highway	6.229 billion person-km	-7.9
Water transport	38 million person-km	-9.5
Air transport	422 million person-km	5.2

With respect to development of post and telecommunications undertakings, the post and telecommunications services generated 127 million yuan in 1990, 15.4 percent more than in 1989. For the year, 44,200 new telephones were installed in cities, 460 new long-distance lines were put in, and 16,400 telephone sets were added. Although post and telecommunications services were expanded, they still fell short of the needs of the national economic development.

#### V. Domestic Business, Supply and Marketing of Goods and Materials

Yunnan's domestic market saw gradual improvement. In 1990, retail sale of commodities in society came to 16.531 billion yuan, an increase of 3.4 percent over 1989, and after deducting the price increase factor, the real increase was 1.3 percent. The minority nationality autonomous regions' retail sale of commodities came to 7.240 billion yuan, an increase of 1.4 percent over 1989. Of the total retail sale of society's commodities, the sale of consumer goods came to 14.559 billion yuan, a 2.4 percent increase over 1989, and 1.171 billion of that amount was attributable to sales to non-individual consumers, a 10.1 percent increase over 1989. The remaining sales were in agricultural means of production, which came to 1.972 billion yuan, an increase of 11.3 percent compared to 1989.

Looking at the consumer goods markets in cities and countryside, retail sales in cities increased 4.9 percent, which was close to normal. Retail sales in counties and towns increased 2.3 percent, but sales at below county level showed some decrease.

Breaking down retail figures by ownership systems shows that sales by the people-owned system grew 5.8 percent; the supply and marketing cooperatives grew 1.1 percent; the other collective-owned systems shrunk by 10.1 percent; the jointly-owned economy shrunk by 80.4

percent; the individual economy grew 7.1 percent, and retail sales by peasants to nonfarming population increased 10.3 percent.

Looking at the retail sales of the mix of consumer goods, and according to the Commerce Department's classification, the sale of edible commodities grew 0.3 percent, wearable commodities fell 31.8 percent, and practical items fell 7.6 percent.

Market prices were stable. In 1990, the retail price level rose 2.1 percent compared to 1989, but the rate of increase fell by 17.2 percent. In comparison, the retail price level in cities and towns rose 0.2 percent and 2.9 percent in rural areas. Looking at specific commodities, food prices rose 1.3 percent, and this includes a 3.3 percent decline in grain price, 1.1 percent decline in meat, poultry, and egg prices, and 2.7 percent decline in fresh vegetable prices; clothing rose 7.9 percent; daily necessities rose 3.1 percent; education and entertainment fell 0.4 percent; medicine and healthcare-related products rose 1.5 percent; fuel cost rose 10.0 percent, and agricultural means of production rose 3.5 percent.

The cost of living for the average worker in cities and towns rose 1.6 percent in 1990.

Sales in the capital goods market were sluggish. For the province as a whole, total sales of capital goods came to 3.014 billion yuan in 1990, a 2.7 percent decrease compared to 1989. This includes the sale of 639,900 yuan's worth of steel materials, a 3.4 percent decline; 1,004,400 yuan's worth of cement, a 5.4 percent decline; 4,769 trucks, a 43.9 percent drop.

## VI. Foreign Economic Relations, Trade and Tourism

Foreign economic relations and trade flourished. So far this year, Yunnan has been taking advantage of improved international relations and rich supply of goods in the domestic market to vigorously increase exports. According to data compiled by the provincial Foreign Economic Relations and Trade Department, Yunnan imported and exported \$548.42 million's worth of goods in 1990, an increase of 1.2 percent compared to 1989. This includes \$434.49 million's worth of exports, a 16 percent increase, and \$113.93 million's worth of imports, a 32.1 percent decrease compared to 1989. The province produced 6 categories of staple commodities which had export value of over \$10 million. Its nontrade foreign exchange income exceeded expenditure by \$13.28 million.

Prospects are good for more foreign economic and technological cooperation in the future. In 1990, 23 new foreign projects and labor contracts were entered into. They were worth \$8,200,100, an increase of 17 percent over 1989. The completed volume of business was worth \$6,250,100.

Tourism thrived. In 1990, 148,200 tourists came to Yunnan. They came from more than 90 countries and regions to tour, look around, visit and to take part in

other exchange activities. This represents a 99.2 percent increase over 1989. The visitors were made up of 49,800 foreigners, a 24.2 percent increase; 97,500 compatriots from Hong Kong, Macao, and Taiwan, a 2-fold increase. For the year, foreign exchange income generated by tourism came to \$16.37 million, a 53.9 percent increase compared to 1989.

## VII. Education, Science, and Culture

In 1990, Yunnan's education system admitted 151 new graduate students, 1.3 percent less than 1989. It had 467 full-time graduate students, 17.8 percent fewer than 1989. The regular institutes of higher education accepted 13,000 undergraduate and professional students, 2.4 percent more than 1989. They had 43,500 full-time students, 3.5 percent fewer than 1989. And 14,500 students graduated in 1990, 14.2 percent more than 1989.

Technical and professional secondary education made steady progress. In 1990, 4,468,600 students were enrolled in specialized secondary schools, 2.8 percent fewer than 1989.

Institutes of higher education for adults enrolled 3,763 new undergraduate and professional students, 32.0 percent fewer than 1989. They had 11,732 full-time students, a decrease of 16.4 percent. Professional and technical secondary schools for adults had 152,400 full-time students, an increase of 26.9 percent over the previous year's enrollment. Elementary schools for adults had 497,300 full-time students, 1.1-fold the previous year's enrollment.

There were new breakthroughs again in the area of science and technology. In 1990, Yunnan received 90 provincial level awards for scientific and technological accomplishments, two awards from the state for new inventions, nine state awards for scientific and technological advancement, and nine provincial level Spark Project awards.

With respect to patent and technology contracts, in 1990, Yunnan received 461 patent applications, six percent more than 1989. A total of 362 patents were granted, 35.1 percent more than 1989. Yunnan also entered into 3,864 technology and economics contracts, 32.4 percent fewer than in 1989. The contracts were worth 102 million yuan, 8.1 percent less than 1989.

Cultural undertakings flourished. [passage omitted] By the end of 1990, there were 7,343 movie theaters, 137 performance troupes, 128 cultural centers, 148 public libraries, 20 museums, 164 archives, 12 radio broadcast stations, 40 medium and short wave transmitting and relay towers, 11 television stations, 24 TV transmitting and relay towers with more than 1,000 kilowatt capacity, and 2,000 TV satellite ground reception stations. Yunnan published 223 million copies of newspaper, 11,655,300 assorted magazines, and 123 million books last year.

### VIII. Public Health

Public health undertakings were enhanced, and health-care conditions further improved. At the end of 1990, hospitals had 76,100 beds, 1.5 percent more than 1989. There were 101,600 public health personnel and technicians, an increase of 2.6 percent. This includes 53,000 doctors, an increase of 2.1 percent; 28,100 nurses of all types, an increase of 4.1 percent. Because of the lack of epidemic prevention funds, healthcare conditions in rural areas were not as good; and 452 villages still had no medical clinics.

[passage omitted].

### IX. Standard of Living

A sample survey showed that the average urban resident had 1,367.37 yuan in disposable income, an increase of 15.5 percent compared to 1989, and after deducting the price-increase factor, the real increase was 13.7 percent. The peasants' per capita net income was 490 yuan, an increase of 2.5 percent compared to 1989, and after deducting the price-increase factor in commodity-type expenditure, the real increase was 0.6 percent. However, development was uneven among different regions, and the real income of some families actually fell.

In 1990, the total wage bill in Yunnan came to 6.035 billion yuan, an increase of 14.7 percent compared to 1989. This includes 1.03 billion yuan in bonuses and above-quota piece rate pay, an increase of 9.2 percent. The worker's average money wage was 2,112 yuan, 12.3 percent higher than 1989, and after deducting the price increase factor, the real increase was 10.5 percent.

Savings in both urban and rural areas increased. At the end of 1990, residents had 11.789 billion yuan in savings, 3.126 billion yuan, or 36.4 percent, more than at the end of 1989.

Employment in cities and towns increased. In 1990, Yunnan's cities and towns found jobs for 95,100 people. At year end, 2,913,900 people were employed, 55,800 more than at the end of 1989. This includes 226,700 workers in the people-owned units implementing the labor contract system. This represents an increase of 38,900 people compared to 1989. At year end, cities and towns had 140,600 self-employed workers, an increase of 6,000 compared to 1989.

The housing situation continued to improve in cities and the countryside. In 1990, 3,772 million square meters of new housing were built in cities and towns, and 14,574 million sq m were added in rural areas.

The insurance business saw rapid development. In 1990, property insurance business generated 45.568 billion yuan, an increase of 10.8 percent compared to 1989; 11,800 enterprises bought business property insurance, 795,300 households bought family property insurance, and 3,522,300 individuals bought life insurance. The insurance companies processed 40,200 domestic claims

and paid out 92.62 million yuan in compensation. They also paid out 9.631 million yuan in life insurance to 25,800 people.

### X. Population

Sample survey of population change showed Yunnan's 1990 birth rate to be 2.36 percent and death rate to be 0.792 percent, with a 1.568 percent natural rate of population increase, 0.066 percentage point higher than 1989. Yunnan had a total population of 37.306 million, an increase of 580,000 people compared to the end of 1989.

Note: 1. All figures cited in this communique are as they appeared in the annual bulletin, with the exception of the GNP and national income which are preliminary figures,

2. All total output figures in absolute value are based on current year prices; the growth rates are calculated based on comparable prices.

3. The amount of farm-use fertilizers produced and used are calculated based on 100 percent active ingredient.

4. According to the fourth census, Yunnan Province had an adjusted population of 36.726 million people at the end of 1989.

### Improving Shanghai's Infrastructure in 1990's

91CE0490A Shanghai JIEFANG RIBAO in Chinese 18 Mar 91 p 5

[Article by Ke Qizhu (2688 0366 2691): "Shanghai Calls for Many New Urban Infrastructure Projects"]

[Text] The urban infrastructure is the most basic material basis on which urban people engage in production, life, and social exchange. In a broader sense, its contents include various urban public facilities, such as municipal administration, traffic, communication, energy, education, culture, health, disaster-prevention, and environment. This article discusses mainly the various public facilities in the city's power system, water supply and drainage system, traffic system inside and outside of the city, postal and telecommunications system, ecological and environmental system, and disaster-prevention system.

### The Importance and Urgency of Building the Infrastructure

The urban infrastructure plays a very important role in urban economic development and social progress. First, the urban infrastructure is the carrier of all urban economic and social activities, and the precondition and basis for the existence and development of the city. Without a complete, adequate, and regular infrastructure system, the city could not function normally. Second, the urban infrastructure is the basic condition for the city's economic development and a component in social production and reproduction. In the absence of



the conditions provided by the infrastructure, it would be hard for any urban activities to take place; without the support of the infrastructure, no process of social reproduction could take place, while some parts of the infrastructure itself (such as energy and water) are factors of production. Third, how completely and effectively the urban infrastructure system functions often directly affects the efficiency of urban economic and social activities. Take the 150 intersections in the urban areas of Shanghai, for example: If by enhancing control and improving traffic efficiency, vehicles' hourly speed could be raised by 8.1 percent, then over 2,500 tons of gasoline could be saved each year. The increase in speed could also speed up the production process, thereby improving production efficiency. Urban infrastructure can not only produce economic benefits directly or indirectly, but it can also produce social and environmental benefits.

Furthermore, in an open, international city, the state of the infrastructure reflects the city's image and standards; the infrastructure is the hardware for the investment environment, and its state affects whether a city has the ability to attract foreign capital. Domestically, because the city is the regional center where productive forces are concentrated, and is also the center of regional economic, cultural, and social activities, the efficacy and standard of its urban infrastructure directly affect the central role the city plays, the size of the sphere of economic influence it has, and its scope of attraction.

In short, the urban infrastructure plays an important and significant role in urban economic and social development. However, in the first 30 years after the founding of the new China, in Shanghai there was an inadequate understanding of the importance of the infrastructure and also insufficient funding, causing an overemphasis on developing and exploiting the potential and a neglect of renovation and construction. This led to the very outmoded, backward state of the urban infrastructure, which seriously hampers the performance of the city's overall functions; it has already clearly begun affecting and constraining the city's economic and social development and improvements in people's living standards. Current, prominent problems in Shanghai's infrastructure are traffic congestion, housing shortages, and environmental pollution. If Shanghai is to be revitalized and opened up, and if its overall functions are to be restored and enhanced, it is imperative to stress and effectively enhance the renovation and construction of its urban infrastructure.

#### **Ideas for Building the Infrastructure in the Next Decade**

The next 10 years will be a critical period in Shanghai's further reform and opening up, and for accomplishing the transformation from a domestically oriented economy into an externally oriented economy. In this way it can embark on the road of coordinated economic, social, and environmental development in a benign cycle. During these 10 years, after the completion of the initial stage, the new Pudong development zone will enter a stage of concentrated development, basically

forming the general configuration of the new zone's infrastructure, and thus will help resolve and renovate the old Puxi zone. As a result, the three big problems plaguing Shanghai for many years—traffic congestion, housing shortages, and environmental pollution—can be basically alleviated, which will greatly improve the investment environment and residents' working and living environments, and meet the demands of building an open, multi-functional, and modern city.

According to this objective, when thinking about building Shanghai over the next 10 years, it is necessary to make Pudong's development the leader, and traffic-related construction the focal point. This will bring along other infrastructure-building projects.

1. *Traffic-related construction.* The overall strategy for traffic is: In connection with developing Pudong and the urban center's new outlying areas, build the inner-ring highway and the Huangpu River Bridge, thus forming a system of urban expressways. Enrich existing industrial areas and satellite cities; spread out the population, job positions, and the irrational distribution of sources of goods in central areas. Reduce traffic density and traffic sources in central areas; implement the policy of giving priority to developing public transportation, and controlling development of such private means of transport as bicycles, motorcycles, and cars; and, actively develop public transportation and multi-leveled, elevated, express traffic. According to this strategy, during the next 10 years it is necessary to first build the urban inner-ring highway, in accordance with the standards for urban expressways, and provide the main framework for the urban highway system. At the same time, the city must adapt and expand its urban north-south highways, its airport, and the highways serving as city entrances for external highways, and it must upgrade main suburban highways. It must complete construction of the subway line from Caoxi Street to the new passenger station, complete the two bridges of Nanpu and Ningpu, and actively prepare for construction of the Nengjiang Street river-crossing project. In accordance with the demands of the overall plan for the new Pudong zone, it must build and expand a group of key roads—such as Yanggao Street and Zhangyang Street—which, together with the Pudong section of the inner-ring highway, can basically form the framework of the highway system for the new Pudong zone.

With regard to international traffic, the overall objective of port construction should be to gradually develop from an inner port to an outer port, with an immediate emphasis on improving efficiency and increasing cargo-handling capacity through the technological renovation of old docks. Four shoreline berths, each with a 10,000-tonnage capacity, are to be built at the new Outer Gaoqiao docks. The development of port waters through excavation is to be continued during the latter part of the Eighth Five-Year Plan. In 10 years the new Outer Gaoqiao docks—12 berths, each with a 10,000-tonnage capacity—are to be built, while two large container-ship berths can also be developed at Jinshanzui. With regard

to railroads, during the next 10 years it is necessary to complete the double-tracking of the Shanghai-Hangzhou line. After the double-tracking of the Shanghai-Nanjing line is completed, it is still necessary to continue technological renovation, in order to reach the standards of an average, modernized railroad. The Shanghai railroad junction is to complete the Nanxiang marshalling station, passenger-car technical operation station, and goods yards, so as to improve the overall capacity of railroads in the area around Shanghai. With regard to civil aviation, during the next 10 years the city must continue expanding the Hongqiao Airport, construct a second runway and a new terminal area, and extend some of the domestic routes. With regard to external highways, it must build two expressways, one to Nanjing and one to Hangzhou.

2. *The urban water supply.* The problem of the quality of sources of drinking water for Shanghai's urban residents must be solved. Based on strategic considerations, the city must complete the second-phase water diversion project along the upper reaches of the Huangpu River, and the first-phase, new water-source project on the Chang Jiang. At the same time, it must build and expand the waterworks at Xinjian, Dachang, Lingqiao, Changqiao, and Yaopu, so as to satisfy the growing demand for water.

3. *Gas supplies.* During the Eighth Five-Year Plan, the second-phase project at the Pudong Gasworks, the "three-way joint supply" project at the Shanghai Coking Plant, the Shidongkou Gasworks project, and the renovation and expansion of the Wusong Gasworks will be completed. This will increase the daily gas supply capacity by 4.2 million cubic meters, providing cooking gas for all urban households with conditions for installation of gas pipes, and increasing the gas availability rate from the current rate of 52.2 percent to over 80 percent.

4. *Environment-related construction.* According to the strategy of first developing concentrated drainage and then gradually constructing sewage treatment facilities, work on the first-phase project of sewage pooling will be expedited during the early part of the Eighth Five-Year Plan. This will divert liquid industrial waste and residential sewage that drains into the Suzhou River along the Suzhou River banks into main sewage pipes; after necessary treatment, the waste can be collected and drained into the large bodies of water in the Chang Jiang estuary. During the latter part of the Eighth Five-Year Plan and in the Ninth Five-Year Plan, the city should fight to build the Zhonggang seaward-draining sewage project, so that it can receive sewage from industrial areas along the middle or upper reaches of the Huangpu River, such as Wujing and Minhang, and collect and drain it into the large bodies of water along Hangzhou Bay. With regard to industrial pollutants, Shanghai must continuously enhance construction of treatment projects according to the principle that those who pollute should

provide the treatment. After these projects are completed, water quality in the Huangpu River and air quality in urban areas will improve substantially.

The urban drainage system is to be further perfected so as to basically eliminate water accumulation in ordinary areas after rainstorms. Several garbage dumps are to be established in the more distant outlying areas, and a second large-scale, urban-waste disposal yard and fecal-sewage treatment yard are to be built. At the same time it should gradually develop innocuous treatment, so as to markedly improve the urban environment for production and life.

5. *Housing construction.* The initial idea is to construct 50 million square meters of housing in the next 10 years, in an effort to increase the per capita urban housing standard from 6.4 square meters of living space today to 8 square meters by the year 2000, and increase the apartment-dwelling rate from 31 percent today to 60 percent. This will basically eliminate households with housing difficulties that have a living space of less than 4 square meters per capita. At the same time, construction of public buildings and environment-related construction in residential areas should be well carried out, so as to markedly improve the quality of life for urban residents.

6. *Communication-related construction.* The postal service is to concentrate on technological renovation. The telephone service is to be developed. There are plans to increase the city's total telephone switchboard capacity from 0.6 million lines at present to 1.7 million lines during the next 10 years; this will increase the telephone availability rate from 6.1 percent at present to 15.4 percent, with the urban availability rate reaching 20 percent. Long-distance communication lines should also be substantially developed so as to meet the demands for the city's modernization and internationalization.

7. *Construction related to electric power.* Large-scale port power stations are to be vigorously developed, and installation capacity increased. The Shidongkou No 2 Power Plant and the Outer Gaoqiao Power Plant are to be built, and the sixth-phase expansion project of the Wujing Thermal Power Plant completed. If possible, one more power plant is to be built on the north shore of Hangzhou Bay. In power network construction, the emphasis should be on renovation. Shanghai should gradually develop a 500-kv (kilovolt) power network, which will form the main framework for Shanghai's power network. The network will extend to the 220-kv urban power network's de-linking and shunting operation, so as to gradually form three area networks for the south, north, and east. At the same time it will renovate the power networks in the old zone. During the next 10 years, there are plans to continue building two 500-kv transformer stations at Yanggao and Yangxing, and to expand, adapt, and build a group of transmitter-transformer stations, lines, and networks in connection with adjusting and renovating the power network.

The preliminary ideas on infrastructure-building discussed above have been proposed in accordance with Shanghai's most pressing immediate needs. At the same time, they take into consideration the future needs of the macroeconomic development trends in Shanghai's economic revitalization and reform and opening to the outside. They have been comprehensively balanced, based on calculations of the reasonable proportion of urban-infrastructure investment to total fixed-asset investment in ordinary times. In order to turn these ideas into reality, it is necessary to adopt forceful measures.

First, it is necessary to fundamentally improve understanding about the importance and urgency of building the urban infrastructure, and to enhance the sense of historical responsibility for building it.

Second, it is necessary to have guaranteed funding. We have investigated the objective laws on infrastructure investment in cities both at home and abroad, including in our own city over the past 40 years. Considering the current state of Shanghai's infrastructure and the basic requirements for the city's future development, we hold that Shanghai's infrastructure investment should represent around 20 percent of the city's total fixed-asset investment during the next 10 years. We hereby propose that relevant funds in the macroeconomic plan be arranged according to this proportion, and that the total be broken down and fit into the five-year plans and annual plans for implementation.

Third, we must enhance the development of science and technology. In order to build the infrastructure, we must conscientiously conduct good feasibility studies and practice scientific decision-making, especially with regard to selecting project system categories and technical plans. We must actively introduce and adopt new construction technologies, so that the limited funds can bring the largest possible benefit to the economy, society, and the environment.

### **Liaoning's Economic Development Report**

SK0905024091 Shenyang LIAONING RIBAO  
in Chinese 18 Mar 91 p 2

["Excerpts" of report on implementation of Liaoning's 1990 economic development plan and its 1991 plan as given by Li Zhendong, vice chairman of the provincial planning and economic commission, at the fourth session of the seventh Liaoning Provincial People's Congress on 9 March]

#### **[Text] Deputies:**

Having been entrusted by the provincial people's government, I now give a report on the implementation of the province's 1990 economic and social development plan and opinions on arrangements for the 1991 plan to this session for discussion.

#### **1. Implementation of the 1990 Plan**

Last year, the province conscientiously implemented the principle of further carrying out economic improvement and rectification and deepening reform and, in line with the tasks and targets defined in the "1990 national economic and social development plan" which was discussed and approved at the third session of the seventh provincial People's Congress, carried out work to tackle the problems and contradictions in economic work, thus achieving fairly good results in the endeavor for improvement and rectification, and in economic development. However, there were still many difficulties.

A. A fairly good agricultural harvest was reaped, and the production of all major farm products increased.

A good harvest, rarely seen in the past few years, was achieved thanks to the efforts of party committees and governments at all levels to strengthen leadership over agriculture, to increase agricultural investment, to actively promote the work of "developing agriculture through science and technology," carry out large-scale farmland water conservancy projects, and to strive to improve the agricultural production conditions, and, also, thanks to the favorable weather conditions in most areas of the province last year. The province's grain output totaled 14.95 million tons, up 3.2 million tons from the preceding year, equivalent to 115 percent of the plan, and an unprecedented bumper harvest.

B. Industrial production picked up gradually, and production by basic industries was relatively stable.

Due to shortages of funds and market sluggishness, industrial production was very difficult last year. The output value of the industrial enterprises at and above the township level declined by 4.4 percent in the first quarter of the year. By the end of June, it registered a decrease of 1.7 percent, and by the end of September, there was still a decrease of 0.4 percent. It was not until the end of November that the province was able to eliminate the passive situation in industrial production. We failed to attain the planned targets of industrial production defined at the beginning of the year. However, industrial departments and departments charged with overall responsibilities exerted the greatest efforts and achieved the greatest success in coordination last year. Departments at all levels throughout the province launched a general war in industrial production aimed at conducting adjustments, improving quality, promoting sales and increasing efficiency. As a result, the annual industrial output value reached 157.18 billion yuan, up three percent from the preceding year in terms of comparable prices.

C. The plans for fixed asset investment were carried out fairly successfully, and the return on investments were fairly good.

The province's investment in fixed assets totaled 26.34 billion yuan, up five percent from the preceding year in terms of comparable standards. Investment projects



declined, but speed was accelerated last year. The Shenyang-Dalian Expressway officially opened to traffic, the Panjin Natural Gas Chemical Industrial Plant with an annual capacity of 130,000 tons of ethylene was put into initial operation, the Liaoning Power Plant whose capacity was increased by 400,000 kilowatts was merged with the power grid to generate power, construction of the Haicheng-Xiuyan Railway was completed, and the single projects of the sundry goods wharf of the Jinzhou Port were examined and approved.

D. Savings deposits and loans at banks increased, and the financial situation was grim.

The monetary situation of the province was basically stable, and so was the operation of credit. The savings deposits of all monetary organizations totaled 86.53 billion yuan, an increase of 19.08 billion yuan over the figure calculated at the beginning of the year.

The province's local revenues totaled 12.93 billion yuan, which was better than expected. The expenditures totaled 12.22 billion yuan, equivalent to 85.5 percent of the adjusted budget, and an increase of 640 million yuan, or 5.6 percent, over the preceding year in terms of comparable standards.

E. Exports continued to grow steadily, and a good trend in foreign capital utilization was maintained.

The year 1990 was the last year for implementing the system of fixing foreign trade quotas by the state. The volume of exports through the ports of the province totaled \$5.6 billion, up 25.9 percent from the preceding year. The exports of Liaoning's local products totaled \$2.505 billion, fulfilling the state quota six months ahead of schedule, and showing an increase of 18 percent over the preceding year. The "three types of joint ventures involving foreign funds" earned \$200 million through exports, an increase of 67.6 percent over the preceding year. Last year, 550 foreign capital utilization contracts were signed, and the amount of foreign capital agreed upon totaled \$840 million.

F. Retail prices were basically stable, and people's income continued to rise.

Since the fourth quarter of 1989, central and local authorities have put into effect several measures for adjustments. This plus the notably improved situation in the total supply and demand of society, and the ample supplies of commodities enabled the retail price rise to decline by a fairly large margin. The annual retail price index showed a 2.7-percent increase over the preceding year.

Urban and rural people's income continued to grow. The per capita cost of living income of urban families was 1,399 yuan, up 8.5 percent from the preceding year. When allowing for price increases, the actual increase was 5.5 percent. The per capita net income of peasants was 776 yuan, up 1.4 percent when allowing for price increases.

G. Science and technology, education and other social undertakings further developed, and the building of the socialist spiritual civilization was strengthened.

Many significant achievements were scored in tackling major scientific and technological difficulties. A total of 5,044 new products were developed, and 2,500 of them were put into production. Fairly large adjustments were made in the geographical distribution, structure, levels, and specialties of higher education, and fairly good results were achieved in the secondary vocational and technical education, the nine-year compulsory education, and the work to eliminate illiteracy. Social welfare was consolidated and developed. New progress was made in cultural, radio, and television, public health, tourist, and sports undertakings. The population plan was carried out fairly successfully.

While fully assessing the fairly good results in the economic improvement and rectification, and other fields of work, we should also remain clear-headed to note that deep-seated contradictions in our province's economic development that had accumulated in many years, such as the unbalanced structure and poor efficiency, had yet to be resolved, and there was still a dark side in the entire economic situation. First, the upturn in industrial production was uneven, and the output value of state industrial enterprises rose by merely 0.2 percent due to the numerous difficulties and heavy burdens. Second, the sluggish market picked up slowly, and the economic circle was impeded. Third, economic efficiency declined on a large scale due to the slow progress in the structural adjustment and the poor management of enterprises. Local budgetary industrial enterprises throughout the province created 4.835 billion yuan in profits, down 45.1 percent from the preceding year. The per capita share of the profit was merely 171.4 yuan.

## 2. Major Tasks and Targets Arranged in the 1991 Plan

This year is the first year for implementing the Eighth Five-Year Plan, and also an important year for continuing economic improvement and rectification, and in-depth reform. In arranging the 1991 plan, we encounter many contradictions and difficulties, but there are also many favorable conditions for economic development.

In order to realize the major objective of improvement and rectification and to implement the proposal of the seventh plenary session of the 13th party Central Committee on formulating the 10-Year Program and the Eighth Five-Year Plan, the overall guidelines of the 1991 plan are arranged as follows: To implement the basic line focusing on "one central task and two basic points"; to continuously carry out improvement, rectification, and deepening of reform, gradually improve basic economic relations, and further improve the economic order; to mobilize the positive factors of all sectors and attend to opening Liaodong peninsula to the outside world in an effort to stimulate the transformation of old industrial bases and the development of the "northern, eastern,

and western parts of Liaoning," and the economic invigoration in the whole province; under the premise of maintaining political, economic, and social stability, to persist in improving and balancing the overall supply and demand, to exert efforts to readjust the structure and raise economic efficiency, to develop and invigorate the market, to promote appropriate economic growth in the whole province and gradually embark on the path of sustained, steady and coordinated development.

Based on the aforementioned guidelines, the major tasks and objectives of the 1991 national economic and social development plan are:

A. We should strive to raise economic results, actively readjust the economic structure, rely on scientific and technological progress, further develop and invigorate the market and strive for an appropriate national economic growth. Under the plan, the GNP should increase 2.5 percent and the industrial and agricultural output value should increase 4.1 percent.

B. We should persist in basically balancing the overall supply and demand and maintain an appropriate increase in the investment scope and in consumer demands. The total investment in fixed assets in the whole society should be 26 billion yuan.

C. We should strive to improve the difficult financial situation, rationalize the scope of credit, and control inflation. Under the plan, the budgetary financial revenue of the whole province should reach 13.3 billion yuan, a decline of 300 million yuan, or 2.2 percent, from the previous year. The financial expenditure should be 13.6 billion yuan, an increase of 1.38 billion yuan, or 11.3 percent, over the previous year.

D. We should do a good job in reforming the foreign trade structure, further expand opening up, more effectively use foreign capital, and develop foreign trade.

E. We should actively guide consumers and raise the competitiveness of local products. It is necessary to strive to make the total retail sales volume of commodities reach 51 billion yuan, an increase of 10.9 percent, and to increase the purchasing power of social groups and of urban and rural residents, and to increase the amount of agricultural capital goods purchased to a certain extent. The retail price index should be controlled at six percent or so.

F. We should strive to advance scientific and technological progress and all social undertakings and maintain coordinated economic, scientific, technological, and social development.

### 3. The Measures and Work Which We Should Adopt and Carry Out in Arranging for This Year's Plan

A. We should further strengthen the status of the agricultural foundation and maintain a steady increase in agricultural production. This year's agricultural plan is arranged under the fairly good agricultural situation of last year. Therefore, we should not slacken our efforts in

the slightest degree. It will not be easy to comprehensively fulfill the scheduled plan. Considering the plan according to ordinary years, this year we plan to make the output of grain reach 14.25 million tons; cotton, 30,000 tons; oil crops, 260,000 tons; and meat, 850,000 tons.

In fulfilling the aforementioned targets, first of all we must earnestly implement the "circular" issued by the CPC Central Committee and the State Council with regard to the work in agriculture and rural areas in 1991, the decision adopted at the second enlarged session of the seventh provincial party committee with regard to enhancing agricultural production, and the policies and measures of promoting the development of agriculture. We should also vigorously develop the socialized service system of agriculture by taking the enforcement of the household responsibility system linked to output as a main task and gradually improve the system of centralized and decentralized management.

We should realize the planted acreage of major agricultural products. A good job should be done in continuously achieving comprehensive development in agriculture and strengthening the province's reserve agricultural strength. Efforts should be made to successfully make full use of agricultural development funds, to accelerate the pace of agricultural development and construction on the Liaohe plain, and to develop and build the areas in western Liaoning by using well the methods of providing labor service for drawing relief funds and of receiving low-interest bank loans. We should accelerate the pace of fulfilling the tasks for the projects of building the Guanying reservoir, diverting the water from the Fier River, taming the Liao He, and of reinforcing the large reservoirs and eliminating their hidden dangers. We should integrate the program of farmland capital construction closely with that of comprehensive agricultural development and while building marketable grain bases which can yield a high and stable output, should continuously do a good job in improving the farmland with medium and low output and consolidating the drainage areas of small rivers in a comprehensive way.

We should rely on scientific and technological progress to develop agriculture and accelerate the pace of popularizing various applicable technologies.

A good job should be done in continuously providing supplies for the means of agricultural production and particularly supplies of fertilizer, agrochemicals, and plastic sheeting.

B. By launching the "campaign" of upgrading product quality and increasing the variety of products and the economic results, efforts should be made to vigorously readjust the structures of products and enterprises and to adopt every possible way and means to enliven the large and medium-sized enterprises so as to enable industrial production to pass its low ebb.

Industrial production will encounter a large number of difficulties this year. However, the general trend will be better than that of 1990. On the premise of curtailing the overstock, promoting sales, and broadening markets, the major tasks of industrial production in 1991 are to pay special attention to readjusting the structures of products and enterprises, enhancing enterprise management, and accelerating the pace of making scientific and technological progress and increasing economic results. We should make arrangements for fulfilling the plan of showing a 4.5 percent increase in total industrial output value over 1990 and a three percent increase in town-level industrial output value over 1990. To fulfill this plan, a good job should be done in grasping the following tasks in particular:

We should adopt effective measures to accelerate the pace of readjusting the products mix. Efforts should be made to maintain the steady growth of energy resources industries; in power production, to successfully build the associated projects for the opened generator set, to make full use of water resources; and to strive to build more hydroelectric stations. A good job should be earnestly done in increasing the variety of products among raw material industries and in upgrading the quality of their products. On the premise of reducing the overstock, the metallurgical industry should increase the proportion of commercial materials, such as steel plates, pipes, and belts; and curtail the output of general steel products and welded steel pipe which we have in excess. Building materials industries should develop new products which can save energy, upgrade the proportion of high and medium-class products, and increase the sales to foreign countries and the volume of export products. Petrochemical industries should pay attention to gearing their production to the means-of-production markets for agriculture and light industry. Machine-building and electronics industries should do a good job in forming mergers and cartels, make full use of the favorable opportunity in which the state scale of investment has somewhat increased to successfully take up the individual production projects within or outside the province and the coordinated or associated projects within the province, and should upgrade their capability of joining in the competition of international markets. Efforts should be made to vigorously increase the output of light and textile industrial products which are enjoying brisk sales. Textile industries across the province must make all-out efforts to readjust the structure of raw materials and their product mix and to bring about a change to their stagnant situation as soon as possible.

We should improve the quality and increase the variety of products to raise economic efficiency.

We should try every means possible to invigorate large and medium-sized enterprises. We should keep policies consistent and stable, and truly delegate to enterprises all the decision-making power in management that should be given to them according to relevant state laws, rules, and policies. We should continue to adhere to and improve the contracted managerial responsibility system

of enterprises, encourage enterprises to create more profits in order to share more, boost the initiative of enterprises and their staff members and workers, and enable large and medium-sized enterprises to gradually acquire the ability to accumulate funds for renovating and developing themselves while making efforts to maintain the steady growth in the state's revenue.

C. We should greatly develop county, district, town, township, and village enterprises to increase local economic strength.

The development of township enterprises will play an increasingly greater decisive role in the province. We should include the development of these enterprises in our long and medium-range development plans. In developing township enterprises this year, we should continue to focus on those in suburban areas that serve the needs of cities, and those that are export-oriented, implement the principle of attaching equal importance to development and improvement, and to the import- and export-oriented economies, and develop simultaneously those engaged in industrial production, commerce, construction, transportation, and service while keeping industrial enterprises as the mainstay. According to the plan, the output value of township enterprises will increase by 10 percent over that of last year.

To attain this goal, we should conscientiously strengthen leadership, and adopt effective measures to guarantee its fulfillment. First, we should give policy support. In addition to stabilizing the current policies, we should persist in making no changes in ten aspects and drawing distinctions in ten aspects, and consider working out some realistic and feasible new measures. Second, we should increase investment. We should give play to the initiative of governments and departments at all levels. Banking departments should work in close coordination with planning and financial departments and, in line with the state industrial policy and the requirement for scientific and technological progress, raise funds from various channels and increase the investment in township enterprises. Third, we should develop our province's advantage of having many large- and medium-sized cities, many large and medium-sized enterprises, many colleges and universities, and many scientific research units, and take the road of "paying attention to three aspects to promote three aspects," making each use its advantages to make up for other's deficiencies, and integrating urban and rural economies. We should encourage technical, managerial and business personnel to contract for the operation of township enterprises, to assume posts or concurrent jobs there, or to give consulting or other services to them. We should actively develop the projects that use local resources, and give play to the advantage of labor-intensive industries and traditional industries to organize in a planned manner large and medium-sized enterprises to disseminate their products or production process to township enterprises so as to establish a rational division of labor in industrial production.



D. We should use the limited funds well to ensure the construction of key projects.

According to state arrangements, the investment in the fixed assets made by local state enterprises is 9.66 billion yuan this year, of which 3.516 billion yuan will be used in capital construction, and 6.15 billion yuan in technical transformation. This, plus the investment in the projects directly under the central authorities, makes the total investment 12.33 billion yuan.

The investment in capital construction made by local state enterprises of the province does not include the investment of Shenyang and Dalian Cities which is directly listed in the state plan and which totals 2.596 billion yuan. When the funds raised by local authorities, and the funds allocated by the state for the power plants jointly built by the state and local authorities are included, the investment in the capital construction made by state enterprises of the province as well as 12 cities will increase by 17.6 percent over that of last year. This year's investment in capital construction will be used not only to strengthen agricultural, educational, energy, transportation, telecommunications, and important raw material projects continuously but also to strengthen the construction of grain storage facilities, urban water sources, and urban residential houses for staff members and workers.

Our province's local technological transformation investment is 6.15 billion yuan, an increase of 4.2 percent over the previous year. Through an initial balance, we have found that we are short of these funds. Therefore, we must try by all possible means to collect funds, extensively open up channels for collecting funds and expand the sources of funds. The investment in technological transformation should be mainly used for technological progress. We should unceasingly adopt new technology and new methods and use new facilities, new materials and new designs. We should invest particularly in projects aimed at reducing energy and consumption, improving product quality, increasing the variety of new products, raising labor productivity, expanding exports to earn foreign exchange and the production of import substitutes, and strengthening production safety.

E. We should grasp the opportunity and strive to expand foreign trade and the utilization of foreign capital.

This year, we should further deepen the reform of the foreign trade system. The state will cancel all subsidies for deficits and implement the policy of assuming sole responsibility for one's own profits and losses in management. This policy will bring fairly great difficulties to foreign trade enterprises that export money-losing products and bring great impetus for the export of farm and sideline products. We must adopt positive and reliable measures to resolve this.

According to this year's foreign trade plan, we will arrange \$2.3 billion worth of products for export and strive to make the figure reach \$2.5 billion. In addition

to continuously occupying a market for traditional products, we should further increase the export of machinery and electric products and strive to make the export figure surpass \$400 million.

In order to fulfill this year's plan of creating foreign exchange through exports, we should implement the State Council's decision on reforming the foreign trade system, further change the ideology, management work style and form, and strengthen business management. It is necessary to firmly grasp the favorable opportunity and successfully readjust the export product mix. We should give special emphasis to key industries and products that have good prospects for export and whose costs are low while earning foreign exchange through exports, actively develop the export of machinery and electric products, and the intensively-processed light and textile products, and gradually shift our province's foreign trade work focus to machinery, light, textile, and chemical industries. We should consider large and medium-sized enterprises as the mainstay and develop export enterprise groups.

We should do a better job in using foreign capital, organize enterprises with favorable conditions to develop projects on "getting the supply of raw materials and the marketing of products on the world market" and on carrying out "three forms of import processing industries and compensation trade," continue to implement all sorts of preferential policies, conscientiously run the "joint, cooperative and foreign-funded enterprises," and give priority to developing enterprises that directly absorb investment from foreign businessmen. It is necessary to strive to improve the investment environment in Liaodong peninsula and intensify its appeal to foreign investment. Meanwhile, we should actively develop the tourist industry and contract for construction projects and labor services abroad.

F. We should rapidly end the situation in which efficiency has declined and improve our province's financial situation.

This year contradictions in financial balance has remained fairly great. It is hard to eliminate deficits within a short period of time. In addition to the other factors in increasing expenditures, the contradictions in balancing local financial resources will be aggravated. The fundamental way to solve our province's financial difficulties is to raise economic efficiency, increase revenue, clear up debts, reduce expenditure, and end deficits.

To increase revenues, the most important things to do are to invigorate the production of essential products, promote sales, try by all possible means to reduce overstocked goods; to increase financial revenues by firmly attending to enterprise management and urging enterprises to exert efforts to reduce material consumption, accelerate the circulation of funds and save expenditure of funds; to further adopt effective measures to conscientiously clear up "debt chains," and end the

phenomenon of delaying payments. We should persist in collecting taxes in line with the law, strengthen management over tax revenues, and increase financial revenues by clearing up the delayed tax and profit delivery of enterprises, and tax evasion by self-employed traders. The clearing-up work should be completed in a planned manner during the first half of this year. In addition, we should make sure that no new defaults on payments will emerge during the year. To solve this problem, we should begin the work with major units whose defaults are big. At the same time, we should punish tax evaders.

We should pay attention to reducing expenditures. Due to the rather large amounts of financial deficits and overdue allocations and subsidies that should have been paid last year, all fields of work will be adversely influenced this year. The provincial planning and financial conferences made a tight budget for various expenses. Even so, we will possibly fail to allocate funds to cover some expenses due to shortages of funds. Therefore, we should first urge governments and departments at all levels not only to make good arrangements for various expenses in line with the guideline of "maintaining a balance between revenues and expenditures, and making every level responsible," but also carry forward the work style of plain living and arduous efforts, save all the expenses that can be saved, suspend or postpone as many non-essential undertakings as possible, and lead another few years of austere life.

In connection with the second round of contracting of enterprises, we should do a good job in changing the deficits of enterprises and products, apply the responsibility system to the work to stop deficits and increase profits, and enforce the public bidding system. Loss-making enterprises should raise their efficiency by improving the quality and increasing the variety of the products, and should fully tap their own potential. We should achieve great success in helping the 251 enterprises, which suffer deficits due to poor management and should be improved on a priority basis, put an end to their deficits.

G. We should invigorate the circulation of goods, and make good arrangements for the people's lives.

The general trend in the market this year is that the contradiction between total demand and total supply will be eased continuously, but the contradiction in the structure of commodities will continue to exist. This is reflected in the stability of the market, the prices, and the people's feelings on the one hand, and in the sluggish sales and decreased efficiency of products on the other hand. Invigorating the market remains an important part of economic work.

First, we should conscientiously enhance the concept of commodity business. All enterprises should strengthen and change their business tactics to meet the ever changing market demands.

Second, we should further establish and consolidate the sales channels and service networks for major products,

and strengthen after-sale service. This year, we should actively organize sales exhibitions and trade fairs to expand the sale of our products mainly in the markets in northeast, north, and northwest China. All enterprises are allowed to enforce the system of responsibility for "sales, collection of money for the sales, and expenses."

Third, we should strengthen the coordination between producers and consumers, and give play to the role of commercial units and supply and marketing cooperatives as the major channels. Based on equality and mutual benefit, we should organize groups of industrial and commercial enterprises, or groups of production and marketing enterprises to engage in the joint marketing of staple goods produced by the province. Fully developing the characteristics of large and medium-sized retail shops which have plenty of room to manoeuvre, we should further improve the methods for industrial and commercial enterprises to develop joint marketing or commissioned sales so as to establish a relatively stable channel between production and sales by industrial and commercial enterprises. Important commodities that concern the national economy and the people's livelihood should be planned, and distributed by state commercial units so that the market can be better arranged.

Fourth, we should strive to open up the market for the means of production. We should take advantage of the bumper agricultural harvest to actively open up the rural market. We should seize the opportunity provided by the busy rural market to deliver industrial goods to rural areas through various measures to satisfy the needs of peasants in their production and everyday life.

H. We should facilitate the development of science and technology, education, and other social undertakings.

We should persistently combine science and technology with economic development, and strive to conduct research on and develop new products and new technologies to meet the requirement for strengthening agriculture, basic industries, and infrastructural facilities, and to meet the needs of the market. We should succeed in popularizing and applying a number of the scientific and technological achievements that yield better and quicker results. In particular, we should greatly popularize electronics technology. We should continue to arrange the projects designed to effect scientific and technological breakthroughs to facilitate the implementation of the plans for advanced science and technology, and promote high- and new-tech industries.

The priorities of education are to make elementary education and structural adjustment successful, to put the most emphasis on the improvement of the quality of laborers by cultivating specialized and technical personnel at various levels, especially those at middle and primary levels, and developing education in various categories and at various levels in a stable and coordinated manner. This year, we should do a better job in adjusting the level and the structure of colleges and universities, and secondary specialized schools, and

appropriately enhance the operating ability of colleges and specialized secondary schools. We should strengthen the management of arranging jobs for the graduates of colleges and secondary specialized schools, make administrative work public and, except for the schools designated by the State Education Commission, allow no school the practice of "enabling graduates and units to choose as they see fit," and the practice of reimbursed job arrangements this year. We should continue to use the subsidies for housing construction for urban primary and middle school teachers, and conscientiously use the funds to solve some problems for the teachers.

Proceeding from the need to stabilize the economy and society, we should continue to achieve success in the work related to labor wages. According to preliminary arrangements, the number of staff members and workers of the province will increase by 57,000 this year, of whom 39,000 will work in local state enterprises, and 18,000 in government offices and institutions. The total number of staff members and workers will reach 5.094 million by the end of this year, an increase of 1.1 percent over last year. Pressure from unemployment remains great this year. The number of jobless people will reach 600,000, of whom 50 percent are this year's newly emerging jobless people, and the other 50 percent are last year's jobless. Therefore, we should conduct extensive propaganda and education to update the people's concept of employment, continue the "Glorious Cup" emulation drive, and maintain social stability mainly by encouraging people to seek jobs independently, or to organize themselves to undertake some kind of work, and by opening up new employment opportunities through the development of collective and township enterprises, and tertiary industry.

Our province is in the third population birth peak period, and the task of population growth control remains very arduous. This year, 620,000 births are planned, the birthrate will be 15.53 per million, the natural population growth will be 10.02 per million, and the year-end population will be kept at 40.15 million. To control the inordinately large increase in population, we should carry out "family planning" on the one hand, and control the mechanical growth of population on the other hand. In carrying out family planning work, we should gradually change the method of exercising control alone to that of giving comprehensive service. We should conscientiously improve the county-level comprehensive service networks for family planning, turn sporadic work into regular service, strictly control the mechanical growth [ji xie zeng zhang 2623 2750 1073 7022] of the population, and include the population immigrating into our province in our plan for management.

In public health, we should make more efforts to improve the medical and public health conditions in rural areas to continuously improve the people's health.

We should further develop cultural, press, publication, radio and television, sports, social insurance, and social welfare undertakings. In developing the various cultural

undertakings, we should continue to adhere to the orientation of serving socialism and the people, and the "double-hundred" principle, rectify the cultural market while making it thrive, and strive to provide more and better nourishment for the minds of the people.

Deputies, this year is an important year for continuing the economic improvement and rectification, and the in-depth reform, and also the first year for implementing the Eighth Five-Year Plan. Whether or not we can comprehensively fulfill this year's economic and social development plan has an important bearing on the province's smooth implementation of the Eighth Five-Year Plan for national economic and social development. At present, our problems are numerous, and our financial resources are strained, which may affect our economic and social development to a certain extent. It is at such a moment that cadres at all levels should all the more uplift their spirit, enhance their confidence, brave the way forward, and carry out work in a down-to-earth manner to achieve still better results in this year's economic and other undertakings.

## FINANCE, BANKING

### Macroeconomic Control Needs Centralized Financial Resources

91CE0434A Beijing ZHONGGUO JINGJI TIZHI  
GAIGE in Chinese No 2, 23 Feb 91 pp 38-39

[By Xiao Hua (2556 5478) of the State Statistical Bureau]

[Text] The preceding stage of improvement and rectification achieved notable success in reducing social demands, eliminating an overheated economy, and decreasing the rate of inflation. However, contradictions such as slow progress in readjusting the structure, declining economic efficiency, and fiscal difficulties are becoming more prominent. An important reason for this has been the weakness of macroeconomic regulation and control. We have, as a result, been unable to change the pattern of vested interests currently in effect. This has made it difficult to quickly strengthen what should be strengthened, impossible to eliminate what should be eliminated, and difficult to optimize the distribution and reorganization of resources. Consequently, speeding up macroeconomic regulation and control and structural reform characterized by appropriately centralized financial resources and arousing both microeconomic and macroeconomic enthusiasm are important considerations for transforming the present economic predicament.

Appropriately centralized financial resources are needed to solve the various difficult economic issues that currently exist in our economy and to establish future economic operations which are comprehensively balanced, structurally optimized, and highly efficient.



*Appropriately centralized financial resources are in keeping with the basic orientation of reforming the economic structure and operational mechanisms to combine a planned economy with market regulation and represent the correct choice for developing a socialist planned commodity economy.* China is a socialist great power in the process of development. The tasks it faces in economic work and social development are formidable. This is why, objectively, it needs to strengthen its power of regulation and control. Generally speaking, centralization belongs in the superstructure category, and the superstructure must correspond to the requirements of the economic base. Judging from China's current economic base, the reform of the eighties and a gradually formed structure characterized mainly by public ownership but existing at the same time with a multiplicity of economic elements have created differing main bodies of interest where the needed financial resources are not centralized. This has made it impossible to meet objective needs for developing a socialist planned economy and difficult to harmonize the interests of various quarters. However, neither are overly centralized financial resources beneficial to vitalizing the microeconomy and to influencing the functioning of market regulation, nor are they beneficial to developing a socialist commodity economy. Only with appropriately centralized financial resources can we strengthen the power of state regulation and control, bring about economic and social development that is both dynamic and orderly, and meet the dual requirements of developing a socialist planned economy and a commodity economy that brings into play market regulation to thereby further harmonize the relationship between China's superstructure and its economic base and moderate the contradiction of existing funds being excessively decentralized in the economy.

*Appropriately centralized financial resources correspond to the general law of large-scale socialized production.* The basic principles of economics tell us that implementing large-scale social production cannot be separated from state macroeconomic regulation and control. It must be guaranteed that the state has authority to allocate social resources efficiently. This will permit microeconomic activity to conform with the goals of macroeconomic operations. Capital accumulation and centralization is an inevitable tendency in the growth of social production. In today's world, no matter if they are Western developed countries or the Soviet Union or East European countries, they all have adopted a diversity of measures to ensure state control over the financial resources that are required. Looking at the developed countries of the West, we see that appropriate centralization forms two categories. The first is represented by the United States, Canada, Australia, and the major capitalist countries of West Europe. Another category is represented by Japan. Looking at the Soviet Union and the countries of the East Europe, we see that, prior to 1989, the system was highly centralized, with financial revenue generally accounting for more than 60 percent of national income, with the highest reaching 97.9 percent.

At present, China has neither the appropriate centralization of the developed countries of the West nor the high centralization of the Soviet Union and countries of East Europe. In 1989, state financial revenue accounted for 18.7 percent of total domestic output value and 22.5 percent of national income. The proportion accounted for by the central government was even lower. Even though there are factors in this proportion which are not totally comparable with foreign countries, the financial resources that the state has centralized and the basic functions that China, this great socialist power, has to perform, do not match up. In looking at the proportions, we see that the centralized financial resources of China's financial administration does not differ much from what is centralized in Japan. However, it has not, as Japan has, set up mechanisms which rely on industrial policies that centralize and channel investment to guarantee that the state has sufficient capital for badly needed basic industrial construction and work on the infrastructure. In this sense, this pattern is not in keeping with the general law of development for large-scale socialized production. Under the circumstances, appropriately centralized financial resources are imperative.

*Appropriately centralized financial resources should be in keeping with China's basic situation—a vast territory, large regional differences, and unbalanced development.* In a large country such as China, the economies of various regions and their natural conditions greatly differ. If the state does not have appropriately centralized financial resources, it is difficult for it to cope with natural and man-made calamities that suddenly occur. It cannot harmonize the interests and the relations between regions and thereby guarantee our ultimate goal of a common prosperity. Under the new situation, which is marked by a pluralism of the main bodies of interests, overly decentralized financial resources are bound to exacerbate regional separatism and lead to "dual" economies that go their own way, thereby creating unfair distribution and wasting limited resources.

*Appropriately centralized financial resources have, since the founding of the People's Republic, also represented a successful experience in building socialism.* In a country such as ours which has such a large population and weak economic base and which is modernizing, we not only must solve the problem of funds for the needed large-scale construction, we also have to do a good job of solving the problem of food and clothing for the masses. These are inseparable from appropriately centralized financial resources. Since the founding of the People's Republic, we have relied on appropriately centralized financial resources to handle several major undertakings bearing on the national economy and people's livelihood, to build an industrialized system and a national economic system that are independent and comprehensive, to transform the extremely backward situation of the past in which the new China was established, and thereby to consolidate the socialist system.

**Appropriately centralized financial resources are not only necessary, they are possible.**

*The socialist system, which relies mainly on public ownership, not only has furnished the basic political conditions for appropriately centralized financial resources, it has also furnished the needed economic conditions. Under a capitalist system that relies mainly on private ownership, government can use a variety of means to centralize needed financial resources. It can create the required material base for macroeconomic regulation and control. Under a socialist system that relies mainly on public ownership, we can, even more, use the power of the state to raise financial resources needed to modernize through administrative, economic, and legal means. As long as our policies are on the right track and our measures reliable, we can, at the same time we are arousing the enthusiasm of various quarters, appropriately centralize the financial resources needed for key state construction projects to lay a foundation for modernizing the national economy.*

*China is a large country. Even though its per capita statistics are not impressive, in the aggregate it is a "giant" that can lay a firm material foundation for appropriately centralized financial resources. Although China's per capita output value in 1989 was behind 100 other countries and regions worldwide, in the aggregate, it stood in ninth place, reaching 1.5789 trillion yuan. If the state were to centralize one percent of that amount, it would come to almost 16 billion yuan. Looking at the last five years, we see that China's average annual increase in national income was approximately 150 billion yuan (including price factors). Excluding consumption resulting from new population increases and living standard improvements for the existing population (the actual annual improvement is about three percent), and after deducting what is used to increase reserves and what cannot be distributed, we could use approximately 50 billion yuan as funds for capital construction. If this same amount were dispersed, the daily per capita increase would be .10 yuan, not enough to buy an egg. However, if appropriately centralized, it could handle several large undertakings.*

*Economic growth in the eighties increased national power, brought a marked rise in national income, and provided the opportunity for appropriately centralizing financial resources. By the end of 1989, the running balance of extrabudgetary funds totaled 188 billion yuan nationwide. By only centralizing five percent, we could have 9.4 billion yuan in funds. Savings account balances for both the urban and rural population exceed 700 billion yuan and their cash on hand comes to more than 200 billion yuan, thereby creating conditions for the state to appropriately centralize funds for production and construction. If we consider all the waste that exists in our economy, the financial resources that the state could centralize from this could be sizeable.*

**To appropriately centralize financial resources, we must adopt both economic policies and administrative means.**

Appropriately centralizing financial resources does not mean reverting to the old path of unified state control

over income and expenditure. Given the new situation, fulfilling the requirements for macroeconomic regulation and control with respect to pluralistic main bodies of interest and raising the needed financial resources through a variety of economic, legal, and administrative means will guarantee the healthy growth of the national economy. In the initial stages of socialism, a developing economy has to constantly pay attention to bringing into play the initiative of central authorities and localities alike. To emphasize one at the expense of the other means failure. Naturally, centralizing financial resources is bound to affect vested interests. It is no small problem. However, it is not an impossible task. Consequently, in the centralization process, we must consider both the needs of the central authorities, take into account the possibilities and needs of the localities, and do a good and complete job of ideological and political work. A relatively feasible approach is, through whatever means are necessary, to readjust the distribution of the national income and reallocate its proportions by appropriately increasing the proportion of financial revenue that is accounted for in national income and the proportion of financial revenue of the central authorities that is accounted for in financial revenue as a whole. Another approach is to take a lesson from a successful approach used by Japan and other countries and regions, which, by setting up the necessary policy guidance mechanisms, use economic levers to channel the investment of public funds into needed construction projects (for example, by assigning certain construction tasks to be handled by the localities or by the localities and the central authorities together). The latter method corresponds to the direction in which strengthening of macroeconomic regulation and control will be developing from now on. Looking at the present situation, we see that speeding up the process of price reform, bringing price relations into better balance, and fully bringing into play the function of pricing guidance and price regulation also represent fairly ideal choices for appropriately centralizing financial resources.

#### **Government To Push for ADB Loans**

OW2404022591 Beijing XINHUA in English  
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[Text] Beijing, April 24 (XINHUA)—China hopes that the Asian Development Bank (ADB) will fully resume its lending to the country during the ADB's 24th annual meeting which was scheduled to open today in Vancouver, Canada.

According to Li Guixian, governor of the People's Bank of China, the ADB's lending to China was basically halted over the past two years.

Although the ADB approved a 50-million U.S. dollar loan to China last November to help expand and modernize agricultural production facilities, it has withheld loans worth more than 500 U.S. dollars to six Chinese projects following the June event in 1989.

The six projects involve railway construction, the building of a bridge in Shanghai, a power plant in Shanxi, a petrochemical plant in Anhui, a steel plant in Shandong and Chinese banking business.

And future ADB loans to Chinese fertilizer, railway, harbor, agriculture and other projects are still being processed.

By the end of last year, the ADB's cumulative lending to China had totalled 506 million U.S. dollars.

## INDUSTRY

### Commentary on Revitalizing Large, Medium Enterprises

91CE0372A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 3, 21 Jan 91 p 3

[Commentary by Journal Commentator: "Use All Means To Revitalize Large, Medium-sized Enterprises"]

[Text] Upon entering the historically crucial 1990's, it is extremely important that we make the revitalization of large- and medium-sized state-run enterprises our central economic task. We should increase their economic efficiency, which will significantly contribute to overcoming the present economic difficulties, consolidating the socialist system, and developing the economy in the coming decade.

There are now over 10,000 large- and medium-sized state-run enterprises in China. In terms of quantity, they make up only 2 percent of industrial enterprises with independent accounting. However, their fixed assets and the profits and taxes they remit to the state each year account for more than 60 percent of those of all industrial enterprises. The electric power, refined oil, steel and iron, coal, major nonferrous metal products, and large amounts of industrial consumer goods that they supply each year for the nation's economic construction accounts for 80 percent of the country's industrial production. Currently, oil production, railway transport of both passengers and freight, air transport, key communications facilities, production of basic raw materials, and construction of basic raw materials installations are all handled exclusively by large enterprises. This shows that large- and medium-sized state-run enterprises are the backbone of the national economy, the major source of state revenues, and the major material base for the state's economic regulation and control. The condition of their production and operation will have a great influence on the national economy.

During the construction of the past 40 years, large- and medium-sized state-run enterprises have extensively adopted advanced technological processes and new technologies. These enterprises have an advantage with their facilities, technology, and management, and can use raw materials and production resources rationally. They can organize mass production, increase productivity, and

reduce labor costs. For instance, their labor productivity rate calculated from a gross value of output is 54 percent higher than that of all state-run industrial enterprises. If calculated from the net value of output, it is 2.3 times higher. These enterprises have maintained this advantageous position in recent years. This proves that these enterprises have a great potential for large-scale operations. Utilizing them to the fullest extent would drastically increase economic efficiency and social wealth, and provide guarantees for a continuing, stable, and coordinated development of the national economy.

Does the emphasis on revitalizing large- and medium-sized enterprises mean that small enterprises will be neglected? No. There is no contradiction between revitalizing large- and medium-sized enterprises and developing small enterprises. Large- and medium-sized state-run enterprises are the "equipment department" of the national economy. Supplies of major raw materials and energy resources; large, heavy, and crucial technological equipment and working machine tools; and other means of production which the national economy urgently demands are largely dependent upon these large- and medium-sized enterprises. In other words, all departments in the national economy that use modern equipment—including small enterprises—cannot survive and develop without large- and medium-sized enterprises. Once large- and medium-sized enterprises are revitalized, they will provide society with rich material resources. This will enhance the development of small enterprises, and even the development of the whole national economy. If the reverse happens, small enterprises would be like water without a spring, or a tree without roots: the result would be a temporary prosperity, with no prospects of further development.

It is based on just such a premise that the party's Central Committee and the State Council have persistently emphasized the important task of revitalizing large- and medium-sized enterprises when formulating plans for development and reform. This strategy is completely correct. Ten years of reform have injected new vitality into these large- and medium-sized enterprises. They have made great progress and have shown their decisive position and strength in the process of the four modernizations. During the current period of improvement and rectification, when the macroeconomic environment is tight and the market is sluggish, most large- and medium-sized enterprises are demonstrating their vitality. They are confronting difficulties, increasing efficiency to help raise state revenues, and are maintaining overall economic stability. One cannot say this is unrelated to the overall increase in quality in these enterprises over the past few years.

It should be noted that currently large- and medium-sized state-run enterprises also face many problems and difficulties. These are most notably reflected by: enterprises' inability to manage and develop on their own, and a lack of self-restraining mechanisms; a heavy load



which weakens enterprises' ability to develop themselves; skewed policies which do not favor their development; central government measures for revitalizing large- and medium-sized enterprises that are improperly implemented; and irrational structures, redundant construction, and blind production. These problems are constraining factors and represent important reasons for the insufficient vitality and low efficiency of these enterprises.

How can the difficulties facing large- and medium-sized enterprises be surmounted?

The most effective approach is to further enterprise reform. It is imperative that we act in accordance with the Eighth Five-Year Plan and the 10-Year Program. On the basis of the direction of reform—supporting the integration of the planned economy with market adjustments—we must actively improve and strengthen construction of a system of macroeconomic regulation and control, and further perfect all forms of the contract and responsibility systems. At the same time, some enterprises will experiment with "profit and tax separation, after-tax loan repayment, and after-tax contract fulfillment." By persistently deepening reform, a new, socialist, planned commodity economy will gradually be established, so that large- and medium-sized enterprises will become relatively independent producers and managers, and can release their potential and vitality.

We should create a sound external environment for large- and medium-sized enterprises. Considering the present situation, we should carry on the policy of purposefully selecting and supporting better enterprises, and favoring them when it comes to supplies of funds, energy, and raw materials. We will continue to help large- and medium-sized enterprises clear their "triangular debts" and stop the unhealthy practice of discretionary fees and imposed pledges. Where conditions warrant it, we will grant limited rights of foreign trade to enterprises. We should mobilize all resources to help enterprises overcome these temporary difficulties.

We should increase efficiency by boosting management. There is great potential for extending and strengthening all aspects of this basic work, for improving operations and management, adjusting product structures, reducing production costs, and increasing output and profits. We may increase efficiency through technological improvements, for which there is much room. We have established a relatively complete industrial system in the country. There is a considerable gap, however, between us and countries with advanced industrial levels. We should raise the modernization levels of large- and medium-sized enterprises through technological improvements and exploiting hidden potential, so that we narrow the gap. Thus we may break through the difficult pass and bring about higher efficiency.

During the past 10 years of reform, large- and medium-sized enterprises have contributed to promoting the national economy. In the coming decade we should

maintain the key link of revitalizing large- and medium-sized enterprises, advance steadily, and promote further developments in enterprise quality and in rationalizing enterprise behavior. In this way, these enterprises will surely contribute more to China's economic prosperity and to realizing the strategic goal during the second phase of economic development.

### Analysis of Recent Industrial Downturn

91CE0372B Hong Kong CHIU SHIH NIEN TAI [THE NINETIES] in Chinese No 6, 28 Jan 91 p 17

[Article by Qi Jun (7871 0193): "Economic Efficiency in Industrial Enterprises Is Sliding Down Seriously"]

[Text] Many of the problems in China's economic development may be summarized in two words: "low efficiency." Since improvement and rectification, economic efficiency in enterprises—especially in industrial enterprises—has declined seriously, causing great difficulties for state revenues.

Major indicators of low economic efficiency in industrial enterprises include:

Sales of industrial products have been persistently slow. If price factors are excluded from calculations, last year sales actually failed to increase.

Resource allocation is exceptionally irrational. Enterprises in processing industries have inadequate production tasks, so that many commonly stop or reduce production. Large numbers of machinery facilities are not operating. Important textile industrial bases lack cotton supplies. About one-quarter of the total spindles in Beijing, Tianjin, and Shanghai are not operating, while textile production in cotton-growing areas greatly exceeds the plan.

Capital circulation is slow. There are serious stockpiles of goods in warehouses. At the end of last August, the amount of steel in stock increased by 45 percent over the previous year, and the number of television sets in stock increased by 69 percent. More than half of newly invested circulating capital was used to fund increased production of goods. At the end of September 1990, the circulation period for capital circulation had increased from 108 days to 131. This was 20.9 percent slower than in the same period in previous years, which means that an additional 10.5 billion yuan was tied up in goods. The profit and tax rate on capital was 13.5 percent, a decrease of 6.5 percent over 1989.

Production costs are rising. By the end of last September, the cost of comparable products from industrial enterprises within the state budget had increased by 6.3 percent compared to the same period in 1989. This caused a deficit of 24.97 billion yuan.

Losses are increasing. By the end of September 1990, statistics showed that 3.5 percent of industrial enterprises within the state budget were operating at a loss.

This was an increase of 15 percent over the same period in 1989. Total losses reached 20.19 billion yuan, an increase of 110 percent.

Realized profits are declining dramatically. By the end of last September, industrial enterprises within the state budget had realized profits worth 19.39 billion yuan, a decrease of 57.9 percent over the same period in 1989.

Product quality is fluctuating, and material consumption is increasing. According to statistics from 16 industrial departments on 75 major indicators of quality in key enterprises, between January and August 1990 the stabilization of the rate of increase was merely 69.3 percent. Over one-third of these enterprises showed increases in raw material consumption, with half of their products consuming more energy.

China's industrial economy is basically a model of "speed efficiency." Efficiency is evaluated on the basis of the rate of increase. With the decrease in speed over the past two years, efficiency has also declined. To solve this problem, it is crucial to reform the system, developing mechanisms which can keep a steady rate of increase in production and which enable enterprises to develop and monitor themselves. Looking at the present situation, first we should take further measures to invigorate the market (for instance, allow a reasonable expansion of the scale of investment, speed up the clearing up of triangular debts, etc.), and maintain a certain rate of industrial production. Second, we should give key support—in terms of investment, loans, and raw materials supplies—to industries encouraged by state policies and to products that are marketable. Third, we should increase investment and loans for technological renovations in enterprises, and strongly encourage technological advancement. Fourth, enterprises should focus on themselves, tap their potential, perfect their operating mechanisms, increase production, save on materials, increase profits and reduce expenditures, and turn losses into profits.

#### Textile Industry Urged To Develop Chemical Fibers

91CE0494B Beijing JINGJI RIBAO in Chinese  
20 Mar 91 p 2

[Article by Feng Shihu (7458 2508 5706)]

[Text] Cotton shortages in recent years have created major losses for national economic development. Experts estimate that current product quality and economic returns in China's textile industry have dropped. Textile raw material shortages account for 70 percent of the problem.

The cotton shortage is due to the operation of certain economic mechanisms; the reasons are truly surprising. First, cotton output has dropped further while there is a cotton shortage. The laws of market demand hold that price levers readjust product output. However, in China, the circulation of cotton is governed by special policies.

Namely, after determining cotton procurement prices, the state entrusts cotton and hemp companies to make unified purchases and sales. In recent years, China has had great cotton shortages. The state has continuously raised cotton prices, but there ultimately is a limit to price readjustments. Compared to economic returns from other agricultural crops, cotton tends to drop. For example, the former 1:8 comparative prices for ginned cotton and wheat have dropped to approximately a 1:5 ratio now. In recent years cotton output has been unable to break from low output and fluctuations.

Moreover, small, regional cotton textile enterprises vie with large, state-run enterprises for cotton resources. At present, small-scale cotton textile production capability nationwide is approximately 11.4 million spindles, which needs 35 million dan of cotton. In other words, the demand of regional small-scale cotton textile enterprises cannot be satisfied unless they receive almost one-half of the output of national cotton-producing regions. Small cotton textile enterprises have backward technology and equipment. Although they consume cotton due to their close proximity to producing areas, their products are unwelcome on the market.

In recent years various economic and administrative measures such as raising prices and policy restrictions have been taken to ameliorate cotton shortages, but they have not been successful. In 1990 and 1991, national cotton procurement was still at a low level of about 3.5 million tons. This tells us that solving the cotton shortage is a thorny issue. Difficulties include:

First, the cultivated area limits increased cotton output. The national cultivated area is about 1.49 billion mu, and cotton accounts for something over 80 million mu. In the past few years, the cultivated land area has continuously decreased at the gradual rate of 20 million mu. It is estimated that by the year 2000, although we adopt various measures to protect cultivated land, to protect the ecosystem we must use approximately 30 million mu of cultivated land for afforestation, and 70 million mu of cultivated land will be used for nonagricultural purposes. At present, China's per capita grain consumption is less than 400 kg; per capita consumption of oil and meat are 10 plus kg and 20 plus kg, respectively, all below international per capita standards. Thus, expanding the cultivated area for cotton must take into account the balance of other cash crops. Many experts believe it is appropriate to stabilize the cotton area between 85 million and 90 million mu during the Eight Five-Year Plan. When the time comes, and there is a good harvest, cotton output may reach 5 million tons and procurement more than 4 million tons, but this can only partially ameliorate the cotton shortage.

Second, cotton textile production costs restrain cotton prices. In recent years, the state frequently has raised cotton procurement prices. The highest price rise occurred in 1989. The present average supply price of mixed grade ginned cotton is 350 yuan per dan, which corresponds to 90-94 percent of cotton prices on the

international market. This indicates that China's textile industry lacks any low-priced raw material advantage. In the first half of 1991, almost one-third of cotton textile enterprises nationwide suffered losses because of rising raw material costs. In 12 medium- and large-sized cities the entire textile industry had losses; since the country was founded this had been rare.

Ameliorating the cotton shortage problem appears to be very difficult. However, if we move our thoughts to readjusting the textile raw material mix, then there may be a glimmer of hope. China has ample fiber raw material output, including silk, ramie, wool, angora, and cashmere. It is not worth considering the possibility of substituting these for short supplies of cotton because production costs for some of these raw materials are high, others are of low output, and in all cases they suffer from land area constraints. However, chemical fiber production does not require land resources. Costs are cheap, there are many varieties and types, and China is rich in the petroleum needed to produce it. It is an ideal substitute for cotton.

At present, chemical fibers account for 29.4 percent of China's textile raw materials. Average annual output for the chemical fiber industry has risen by nine percent in the past five years. Total annual output is now 1.47 million tons, the fourth highest in the world. The chemical fiber industry could substitute for insufficient cotton output since there already is a production base. Double the result could be had with half the effort if investment is increased. The goal of the chemical fiber industry to account for at least 40 percent of textile raw material production by the year 2000 is feasible. Hereafter, the critical matter will be what steps to take for the industry to develop in a self-reliant manner.

The proportions of chemical fibers produced by the industry also must be readjusted. At present, China's system of chemical fibers is in a pyramid shape of raw materials, chemical fibers, and heavy processing. Pressing matters are to obtain capital, and enhance development of basic industries such as raw materials. Different chemical fibers can imitate real ones, such as wool and silk. At present China's different chemical fibers account for 11-12 percent of all chemical fibers. Hereafter, this group should be a key type of chemical fiber, as it can raise the added value of textile production.

We should develop on a trial basis the chemical fiber industry to solve the lack of construction funds. In the 1970s, China established four chemical fiber bases, in Shanghai, Tianjin, Liaoning, and Sichuan. In the 1980s it set up the Jinshan Chemical fiber two-stage project in Shanghai, and the Yizheng chemical fiber base in Jiangsu. The state spent enormous sums on these efforts, \$3 billion in foreign exchange over nearly two decades on importing technology and equipment. Recently, the state has achieved extremely practical results by building and putting into operation the Yizheng chemical fiber base with domestic funds and international financing. In

the future, it would seem that such a method of raising funds has to be used again. Steadfastly doing so definitely will ensure that the future road taken is a rosy path suited to national conditions.

### Official Discusses High-Technology Zones

OW0104191691 Beijing XINHUA Domestic Service  
in Chinese 0056 GMT 31 Mar 91

["Responsible Person of the State Science and Technology Commission Answers Reporters' Questions About the Establishment of 26 New and High-Technology Development Zones—by reporter Yang Zhaobo (2799 0340 3134) and trainee Yuan Jun (5913 0193)"]—XINHUA headline]

[Text] Beijing, 31 Mar (XINHUA)—The State Council's decision to approve the establishment of 26 additional new and high-technology development zones has drawn the attention of deputies attending the Fourth Session of the Seventh National People's Congress [NPC], and members attending the Fourth Session of the Seventh National Committee of the Chinese People's Political Consultative Conference [CPPCC]. In connection with this issue, we recently interviewed a responsible person of the State Science and Technology Commission.

Question: What is the difference between the state's new and high-technology development zones, which the State Council recently approved to establish, and the special economic zones [SEZ] and economic and technical development zones that have been set up in our country?

Answer: The state's new and high-technology development zones, which the State Council recently approved for establishment, are different from the existing SEZ and economic and technical development zones in terms of characteristics, policies, administrative systems, and scopes of business.

First of all, the establishment of SEZ and economic and technical development zones is primarily for the purpose of attracting foreign capital needed to develop the coastal areas and promote China's economic development as a whole. In the new and high-technology development zones, China will depend primarily on its own scientists and technicians to accelerate the commercialization, industrialization, and internationalization of new and high technology, as well as to accelerate the infiltration and diffusion of this technology into traditional industries to promote local economic development, perfect and maximize China's industrial structure and product mix, upgrade the technology of China's mainstay industries, increase China's labor productivity and economic efficiency, and make Chinese commodities more competitive on the world market. Of course, the new and high-technology development zones also will be open to the outside world. They will welcome foreign investment, and foreign investors will enjoy similar preferential treatment as they would in SEZ and economic and technical development zones. However, these zones differ quite substantially from SEZ and



economic and technical development zones in terms of applicable policies. Within the new and high-technology development zones, their preferential policies will be applicable to new and high-technology enterprises. Within these zones, foreign-funded and Chinese-funded enterprises alike will enjoy preferential treatment as long as they engage in the development of new and high technology. However, those enterprises producing goods of ordinary or traditional technology will not enjoy preferential treatment. The new and high-technology development zones will be limited in scope. Enterprises located outside these zones will not be able to enjoy preferential treatment regardless of whether they are engaged in the development of new and high technology, or traditional technology. Because of this policy, enterprises engaged in new and high-technology development will converge gradually into these zones. This will result in the relative concentration of manpower, material, and financial resources in these zones, generating the efficiency of sizable economies. Thus, the establishment and development of these zones as a new industrial system are timely and economical. They will be greatly beneficial to regional development and to the integration of science and technology with China's mainstay industries essential for the national economy.

**Question:** The State Council decision provides that the State Science and Technology Commission will administer these new and high-technology development zones and give them specific guidance. What, then, are the relations between these zones and science and technology commissions at various levels?

**Answer:** The State Council clearly provides that the State Science and Technology Commission will administer these zones and give them specific guidance. This is not accidental. The new and high-technology development zones have inseparable ties with all science and technology departments. The experiences gained by other countries show that, to establish and develop an industrial system with relatively complete new and high technology within a short period of time, the support of strong scientific and technological forces is essential, the system must have a relatively comprehensive industrial foundation, and it must have the support of preferential policies, as well as the protection of rational administrative system and mechanisms. On the other hand, work in these areas cannot be accomplished without the active organization and coordination of science and technology departments. Only when there is the organization and coordination of science and technology departments can new and high technology find its way into the development zones and effectively integrate these zones with the technological advancement of the mainstay enterprises essential for the national economy. Of course, the administration of the State Commission for Science and Technology does not mean that new and high-technology development zones are the business of science and technology departments alone. Facts have proved that the establishment of these zones has had the energetic support of all departments and all local governments and

people of all walks of life, because it tallies with China's actual economic development. The local governments and people of all circles, in particular, have demonstrated extremely great enthusiasm and eagerness for their establishment. In fact, because of the preferential policies drawn up by these local authorities, a number of new and high-technology development zones already have taken shape and have yielded good economic results. This being the case, new and high-technology development zones will continue to count on the firm support and coordination of all governments and departments for their administration and construction. The construction of these zones will be a common endeavor to be undertaken by all governments, all relevant departments, and people of all walks of life.

**Question:** What is the relationship between these new and high-technology development zones and the state's Torch Plan?

**Answer:** The Torch Plan is a guidance plan of the state meant for commercializing China's new and high technology, establishing and developing new and high-technology industries in China, and helping the country internationalize them. The establishment and development of all types of new and high-technology development zones is an important part of the work of organizing the implementation of the Torch Plan. Under the Torch Plan, hundreds of state projects have to be screened each year, over 1,000 local projects receive support, operators and managers of new and high-technology enterprises are trained, and service centers are established to help set up businesses that can "incubate" new and high technology of new and high-technology enterprises, so that a service system supporting the development of new and high-technology industries can be improved gradually. Under the Torch Plan, to internationalize the new and high-technology industries, different types of companies or representative organs will be established in selected countries and regions to promote export and technical and economic cooperation so that China's new and high-technology industries can compete on the world market. Thus, the new and high-technology development zones are an important part of the Torch Plan, and will be important bases for implementing the Torch Plan.

#### **Large Digital Controlled Cutting Machine Developed**

OW0904194591 Beijing XINHUA in English  
1634 GMT 9 Apr 91

[Text] Changsha, April 9 (XINHUA)—Chinese engineers recently developed an automatic computer programming system for a large digital controlled cutting machine.

The system was created by the Beijing Science and Technology University and an electromagnet factory in Yueyang City, Hunan Province. The system will be applied to procedures for cutting various types of steel plates.

Experts who attended the provincial appraisal of the system noted that its functions are better than those of similar systems created in Japan.

### Output of Light Industry in March

HK1504122591 Beijing CEI Database in English  
15 Apr 91

[Text] Beijing (CEI)—Following is a list of the output of China's light industry in March 1991, released by the State Statistical Bureau:

Item	Unit	3/91	3/90
Bicycle	10,000s	309.30	279.91
Sewing machine	10,000s	64.69	69.83
Watch	10,000	654.3	615.8
Camera	10,000s	27.00	11.28
TV set	10,000s	236.88	236.28
Color TV	10,000s	100.55	70.78
Video recorder	10,000s	0.78	0.76
Radio	10,000s	153.71	167.15
Tape recorder	10,000s	241.27	266.11
Washing machine	10,000s	67.71	60.15
Fan	10,000s	670.45	616.79
Refrigerator	10,000s	38.57	43.67
Sugar	10,000t	97.18	92.25
Salt	10,000t	78.9	83.5
Cigarette	10,000c	275.2	286.4
Beer	10,000t	58.83	47.77
Liquor	10,000t	41.18	41.81
Canned product	10,000t	8.76	11.23
Feed	10,000t	211.72	206.68
Machine-made paper and kraft	10,000t	101.51	96.37
of newsprint	10,000t	3.78	2.45
anastatic printing paper	10,000t	4.58	5.69
Synthetic detergent	10,000t	14.62	15.32
Daily fine aluminium products	t	7414	7090
Plastic product	10,000t	31.43	29.54
Farming film	10,000t	5.02	4.57
Bulb	100mpc	2.33	1.97

notes: m—million meter, c.m.—cubic meter, pc—piece, c—cases, t—ton, s—set

### Gross Industrial Output in March

HK1504122191 Beijing CEI Database in English 15  
Apr 91

[Text] Beijing (CEI)—Following is a list of China's total industrial output value in March 1991, released by the China State Statistical Bureau.

	3/91	in 100 million yuan	
		1-3/91	Increase Over 1-3/90 (%)
Total	1893.9	5142.2	13.7
Export products	201.9	525.1	10.9
Light ind.	921.7	2555.3	15.9
Heavy ind.	972.2	2586.9	11.6
State	1241.4	3428.2	9.6
Collective	537.6	1415.7	19.5
Others	114.9	298.3	42.8

(Industrial output value is measured in 1990's constant yuan)

### Enterprises Use Advanced Technology To Raise Efficiency

OW2704184991 Beijing XINHUA Domestic Service  
in Chinese 0330 GMT 26 Apr 91

[By reporter Zhu Youdi (2612 1635 2769)]

[Excerpts] Beijing, 26 Apr (XINHUA)—A number of big and medium-sized enterprises in our country embarked on the road of development centering on using advanced technology to raise economic efficiency.

In light of the domestic and international market demands and the needs of national economic development, these enterprises relied on technological upgrading as the main method and made full use of technological resources available at home and abroad to bring a remarkable historical change to their production technology, products, and work efficiency. [passage omitted]

In 1990 investment made by state-owned enterprises in updating and upgrading technology totaled 82.8 billion yuan, five times more than 1980. The last 10 years have seen 450,000 technology-updating and upgrading projects carried out by these enterprises. In many industries, including machine-building, electronics, textile and other light industries, iron and steel, chemical industry, building materials, and pharmaceutical manufacturing, the scale of technological transformation surpassed that of capital construction for the same period. Many big- and medium-sized enterprises "thoroughly" transformed themselves, and the level of their technology rose quickly from that of the 1950's or 1960's to the 1970's or 1980's. The Jilin Chemical Industry Corporation made a total investment of 1.36 billion yuan in technological transformation during the Seventh Five-Year Plan period. During those five years, 451 technological transformation projects were carried out. Among them, 31 were big projects, each with an investment of more than 10 million yuan. These projects greatly increased the capability of this old chemical industry enterprise. The Luoyang No. 1 Tractor Plant thoroughly changed the longstanding problem of producing only one model, which used too much fuel and had poor and unreliable performance. This plant adopted new production processes and new technology, fully

tapped its internal potential, and conducted technological transformation in a planned and methodical way. Now, it turns out more than 50 different products in six categories. This plant has become a large modern enterprises making big and small tractors as its main products. Other products include motor vehicles, construction machinery, diesel engines, and bicycles. Last year its profit and tax contributions to the state amounted to 140 million yuan, nearly double the 1986 record.

Use of foreign technology by enterprises in our country reached an unprecedented scale and depth in the favorable environment for opening to the outside world. Over the past 10 years, foreign exchange used for technology imports amounted to 29.85 billion yuan. More than 7,000 big transactions were concluded in this respect. Among them, 72 percent are hardware projects such as machinery, electric equipment, and production lines. Technology imports brought a remarkable change to the technological aspect of enterprises in our country. [passage omitted]

Meanwhile, enterprises made great headway in tackling key problems of science and technology in a wide range of fields. In doing this, they also solved a number of big problems in science and technology for the state. The direct returns that can be calculated exceeded 30 billion yuan. In addition, enterprises made great progress in developing new products. Technological research achievements are quickly applied to the production of commodities. About 70 percent of the newly developed products were put into commercial production. [passage omitted]

It is reported that the state will pay particular attention to the technological progress of 300 big and medium-sized enterprises during the period of the Eighth Five-Year Plan. With particular state support aimed at raising their abilities to accumulate funds and to transform and develop themselves, these enterprises are expected to play a leading and exemplary role in promoting the technological transformation of existing enterprises.

#### **Building Materials Industry Enters World Market**

OW0605030891 Beijing XINHUA in English  
0212 GMT 6 May 91

[Text] Beijing, May 6 (XINHUA)—Since the economic reform and opening to the outside world, China has expanded the technological exchanges and cooperation in its building materials industry with foreign countries and regions, according to Zhang Renwei, deputy director of the State Bureau of Building Materials Industry.

The Overseas Edition of today's PEOPLE'S DAILY today reported that in the past ten years China contracted 30 building materials projects in more than 10 countries and regions, and also exported 58 technological items related to building materials production and equipment.

According to statistics, China has exported over 500 kinds of building materials to more than 110 countries and regions, the official said.

China exported more than 200 million tons of cement a year. Meanwhile, China's glass production has also ranked first in the world.

#### **Rise of Industrial Production Noted**

HK0905023991 Beijing CHINA DAILY in English  
9 May 91 p 2

[By staff reporter Wang Xiangwei]

[Text] China's industrial production in April chalked up a steady rise of 12 percent over the same period last year. But bulging stockpiles still clogged the economic flow.

The latest government statistics showed that industrial output stood at 197 billion yuan (\$37 billion) in April and the average daily output rose 7.5 percent over March.

Thus the industrial production in the first four months of this year registered a 13.2 percent rise to 711.4 billion yuan.

Officials from the State Statistics Bureau said that they were pleased with the figures, which did not reflect a very substantial rise as industry had been treading water in the first four months last year.

However, the officials said that despite the gratifying industrial growth, the huge stockpiles remain to be thinned.

They said that the industrial growth was much faster than the bounce-back in consumption and demand for investment, resulting in a further rise in stockpiles.

The statistics showed that by the end of March, the products piling up in factory warehouse rose 7.1 billion yuan over the end of February.

In April, the State-owned enterprises reported a 7.4 percent rise to 126.1 billion yuan and the collectively-owned enterprises rang up a 17.7 percent hike to 58.2 billion yuan.

The private firms and foreign-funded enterprises continued their vigorous momentum, registering a 43.8 percent gain to 12.7 billion yuan.

In the first four months, the light industrial output was up 15.2 percent to 352.2 billion yuan and the heavy industrial output 11.4 percent to 359.2 billion yuan.

The coastal provinces where processing industries dominate continued to be the steam provider for the national economy.

The statistics showed provinces and cities in the eastern parts of China registered an average growth of 14 percent.



Meanwhile the northeastern provinces including Liaoning, Jilin, and Heilongjiang—the country's industrial hub for heavy industries and energy production—only managed to rise in the range of 1 to 2.5 percentage points.

A slight decline was reported in the energy and raw materials industries as energy production in the first four months totalled 320 million tons, down 0.4 percent from the same period last year.

The officials said that as the government continues to relax its grip over investment on fixed assets, production of electrical machinery continued to bounce back.

## CONSTRUCTION

### Shanghai Plans 10 Major Projects

OW0403095191 Beijing XINHUA in English  
0735 GMT 4 May 91

[Text] Shanghai, May 4 (XINHUA)—Shanghai will further improve its image in the next five-year plan period (1991-1995) by completing 10 major construction projects.

The projects are two big bridges over the Huangpu River, the first phase of a sewage disposal project, the first phase of the Waigaoqiao port area in the Pudong new development district, expansion of Hongqiao Airport, a comprehensive project to improve communications in the downtown area, the No. 1 line of the subway, gas and water-supply systems, and an elevated highway.

Seven of these projects are already under construction, and the construction of the other three will start within this year.

The city's image will be greatly improved upon completion of these projects, said Mayor Huang Ju. In particular, he pointed out, communications have always been a serious problem in this densely populated industrial and commercial center of China.

Apart from the above-mentioned projects, the city government also plans to build residential houses with a total floor space of 25 million sq m.

## FOREIGN TRADE, INVESTMENT

### MOFERT Economists Study Enterprise Internationalization

9ICE0484A Beijing GUOJI MAOYI (INTERTRADE)  
in Chinese No 1, 27 Jan 91 pp 6-10

[Article by Xu Xianquan (1776 6343 2938) and Li Gang (2621 6921) of MOFERT's International Trade Institute: "Several Issues To Be Considered When Enterprises Internationalize Their Operations"]

[Text] Since reform and opening up began more than a decade ago, China's economy has undergone rapid development. As the economy opens up more to the outside world and the relationship between China's economy and the world economy becomes increasingly intimate, our enterprises have also progressed from the stage of unilateral importation of foreign goods and services to bilateral opening up and circulation. All forms of overseas direct investments, such as joint ventures, contractual joint ventures, wholly owned enterprises, and stock participation, have flourished. China has put the issue of internationalizing the operation of its enterprises and organizing transnational corporations on its agenda, and the initial practice of internationalizing enterprise operations has also brought before the theoreticians many serious issues which must be addressed and explained thoroughly.

### 1. Internationalized Enterprises and Transnational Corporations

Since the end of World War II, investments by transnational corporations in nations around the world have given tremendous impetus to the development of world trade, and the latter in turn has been the main driving force behind world economic development. In the last 20 years, there have been dramatic changes in the structure of the world's transnational corporations. The monopolistic hold on transnational corporations by the developed countries has been broken, and many newly industrialized nations (or regions) as well as developing nations and socialist countries have also become members of this "world club" of transnational corporations. Although the scope, the extent of transnationalization, and the organizational structure of and the number of economic sectors encompassed by these countries' companies are still dwarfed by the developed countries' global transnational corporations, they nevertheless are achieving the goal of promoting their own national economic development by adopting an enterprise organizational format which so far is strange to most countries and by allocating key factors of production either rationally within the world context or in an optimal fashion from the standpoint of the country's own interests.

While theoreticians in China are analyzing the transnational corporations from a critical standpoint and treating them as the product of the capitalist economic system and as the principal form of contemporary international monopoly and the main force of monopoly in international trade, China's entrepreneurs are challenging such criticisms with the concrete practice of setting up transnational corporations with Chinese characteristics and launching internationalized operations. The laws of the commodity economy are the general laws of economic formation of a civilized human society. Capitalism has produced highly developed commodity-economic societies. The economic management methods it has created and which have universal significance are also applicable in a socialist economy. As an organizational mold by which enterprises internationalize their

operations, transnational corporations, of course, are also a suitable form of socialist enterprise. This is a logical outcome if we understand the general laws of the commodity economy correctly, and it is also a major breakthrough into a once forbidden ideological and theoretical zone.

Currently, Chinese enterprises that are internationalizing their operations generally fall into the following categories: (a) Multipurpose internationalized groups of substantial size and strength, as represented by the China Resources (Holdings) Company and the China International Trust and Investment Corporation. They are primarily trading and investment companies but are also involved in production, technologies, services, finance, consulting, and information and other activities. (b) Specialized foreign trade companies, as represented by China National Chemicals Import and Export Corporation. They are primarily trading companies which specialize in specific commodities as regulated but are also developing into comprehensive, multipurpose, internationalized corporations. (c) Giant enterprises in China's mainstay industries, as represented by the Capital Iron and Steel and the Baoshan Iron and Steel companies and the No. 2 Automobile Company. These enterprises are developing international markets, investing in relevant upstream and downstream industries, and launching technological inter change to bring about industrial upgrading and enterprise modernization in accordance with the needs of their respective industry and their own development. (d) Medium- and small-sized enterprise groups with high-tech backgrounds that are using a variety of formats to launch their internationalized operations and develop overseas markets. In addition, there are some medium- and small-sized enterprises (including services) which have opened branches and developed businesses overseas independently and have a limited international operation. In the future, as China's reform deepens, and as we open up further to the outside world, more modern internationalized enterprises will appear, and meanwhile, the above-described types of internationalized enterprises, to varying degrees, will transform and reorganize themselves.

It should be pointed out that internationalized operation and international operation are two different concepts, and internationalized operation and transnational corporation are not exactly the same either. Enterprises that are internationalizing their operations may be large-, medium-, or small-sized; they may be transnationalized to a large or a small extent; they may encompass a few or many economic sectors, and their operational orientation may be very different. Therefore, these enterprises' business activities may be two-nationed, multinational, intercontinental, or even global, and they need not all be transnational corporations in the modern sense. In other words, an enterprise that internationalizes its operation is not necessarily a transnational corporation. A transnational corporation also has one other important characteristic; that is, it should have a monopoly in a particular economic domain, industrial sector, or a category of

product of importance either in the domestic market, in several countries, in an entire continent, or even in the global sense. If one understands this point, it should not be difficult to understand why the archives of the United Nation's Transnational Corporation Center contain records of only 650 of the world's largest transnational corporations and data on the more influential medium- and small-sized transnational corporations rather than including all the internationalized enterprises.

## II. The Nature, Status, and the Role of China's Internationalized Enterprises

Since China's opening up, its direct overseas investments have reached \$951 million, spreading over 88 nations and regions in five continents, financing 645 enterprises of all types. Currently, internationalized enterprise operations are being developed in depth. How do we deal with the objective necessity of internationalized enterprises, their nature, status, and role, and what system and policies do we need in order to support and encourage their development? These have become urgent issues which must be resolved.

First, the objective necessity of internationalized enterprises: As a developing nation, China must first utilize foreign capital and bring in advanced technologies and management experiences to modernize its economy. Therefore, generally speaking, we are facing many of the same problems other developing nations are facing. The shortage of funds and the backward technologies will put us permanently in the position of having to import funds and technologies. As a socialist country, China's economic management system and operational mechanisms are different from countries with a different system. The sphere of influence of the laws of the commodity economy is also limited by the ownership system and the laws of the planned economy. Therefore, we cannot simply copy someone else's economic mold. But the planned commodity economy mold with Chinese characteristics under the socialist public ownership system is still being developed and shaped. That is why, in the process of opening up to the outside world and participating in worldwide international division of labor and interchange, we have run into the question of how to link up with the international economic mechanisms and comply with international economic laws and international practices. These are the very conditions that are hampering the internationalization of our enterprise operations. This being the case, how did some enterprises that have internationalized their operations manage to develop so rapidly after China's opening up? There must be an internal dynamic cause behind it. It is our opinion that although there are constraints, there is also an objective necessity for their existence and development. From the standpoint of the external conditions, the trend of world economic integration is becoming increasingly obvious. Internationalization of production (in-depth specialization and cooperation and technological, product, regional, and phasic specializations are the main characteristics) and capital (profit motivation and capital expansion prompt people to look for markets

worldwide where they can maximize the return on their capital) has become an irreversible trend. Under the circumstances, the transnational corporations' monopoly in the global economic, trade, financial, and technological domains is also generating an increasingly bigger impact. Many developing nations and socialist countries are utilizing these transnational corporations as an important tool for modernizing their economies. China should also make use of them conditionally to achieve its objectives. Establishing Chinese transnational corporations will enable us to allocate our resources effectively in the international context; on one hand, it will serve the country's modernization, while on the other hand, will allow us to compete with other transnational corporations and use organized force to fight against organized force. From the standpoint of the internal conditions, internationalizing enterprises' operations and setting up transnational corporations will allow us to maximize our comparative advantages in the international context and circumvent the tariff and non-tariff trade barriers put up by trade protectionism. It will help expand our export goods' market share, allow the many finely divided markets to develop in a solid fashion, help us obtain a steady supply of the much-needed resources and products of relevant upstream and downstream industries, remove the blockade on international technology transfer, promptly relay scientific and technological information and industrial and product development trends, and allow us to learn the advanced foreign management methods and spread that knowledge to other domestic enterprises. Thus, conditions at home and abroad as well as the strength and international experiences some of China's enterprises have accumulated since the opening up have afforded China the freedom to internationalize its enterprise operations and set up its own transnational corporations. It is fair to say that China has the objective necessity as well as the possibility to do so.

Second, the nature, status, and role of China's internationalized enterprises: in the ownership structure of the socialist planned commodity economy, the public ownership system is the primary system, and it is supplemented by many other ownership systems. This ownership structure mandates that the internationalization of enterprise operations cannot be limited to state-run enterprises. Of course, so far as the current development is concerned, enterprises that are internationalizing their operations are state-run enterprises made up of fairly large and fairly substantial production and trade entities. It is exactly because of the nature of this ownership system that these enterprises must subordinate themselves to state plans (implement those plans) and state policies. Looking at the trend of future development, enterprises that are internationalizing their operations will have diverse ownership systems. From the international standpoint, except for the wholly Chinese-owned enterprises which will remain state-owned, most enterprises will have a composite ownership system, and all will determine their profit based on the equity shares they own. Their planned management and operational

format must comply with the local legal and economic systems and policies. Thus, within this context, the concept of ownership rights is being diluted. Instead, the crux of the question lies in complying with international methods and practices and in correctly handling the relationship between ownership rights and management rights, the profit allocation relationship among different owners of equity shares, and the issue of localizing the subsidiaries, also ensuring that China's transnational corporations generally act in their country's interests.

As the driving force behind world economic integration, today's transnational corporations are increasingly becoming the main promoters, suppliers, and monopolists of international trade, international investment, and advanced and new technologies. Such already-established status and roles are something no other force can replace. What, then, is the status of the Chinese enterprises that are internationalizing their operations and the newly founded transnational corporations? What role should they play? From the domestic standpoint, most enterprises that run their transnational operations out of China are large, multipurpose commercial holding companies, specialized foreign trade corporations, giant industrial enterprises or enterprise groups, and large trust and investment companies. They already play a decisive role in the national economy and enjoy a monopolistic position in their respective domain, and to varying degrees, they also have the edge in everything from personnel, finance, material, production, supply, sales, banking, investment, insurance, to management and administration. Even the state's economic development strategy and national economic plans make special provisions for them. From the point of the organizational structure of the transnational corporations, their internal vertical integration is obvious, and China's traditional economic system is a perfect basis for the introduction of this organization structure into this country. Therefore, these enterprises should play a role in promoting the modernization of China's economy. They should play an exemplary role and influence the other enterprises, and they should play a vanguard role in promoting China's trade development, increasing investment, and propagating technologies. From the international standpoint, China's transnational corporations should be founded on a high starting point, and they should rely on their unique superiority to compete with transnational corporations of the developed countries, the developing nations, and other socialist countries in the areas of technological development, production, operation and sales management, and administration, and try to capture a share of the already monopolized market. Today, the average investment in a transnational corporation's overseas subsidiaries amounts to \$6 million for a developed country, \$2.6 million for a developing nation, and around \$1.4 million for the Soviet Union and the East European countries. China is spending around \$1.47 million, and by this standard, we are still at the infant stage, and we must accelerate these enterprises' development. At the same time, China's transnational corporations should also



bring home the international funds they have gathered or relay as quickly as possible the new technologies they have just obtained, so as to organically integrate our overseas investment with the attraction of foreign capital and technologies. They must "go out" and "bring in" and play the role of a bridge. This should also be one of the main characteristics that make China's transnational corporations different from the others.

#### **Several Key Relationships Enterprises Must Take Into Consideration When Internationalizing Their Operations**

International experiences show that early on, all transnational corporations are based their operations in their own domestic markets. After they have reached a certain scope or standard, they then gradually shift the strategic points overseas and set up subsidiaries worldwide. Because China is a developing socialist country, its enterprises should plant their foothold on serving the modernization of the domestic economy as they enter the initial phase of internationalizing their operations. For this reason, they must give priority to considering the domestic factors and smooth out the relationships among various key elements:

1. The ownership systems or ownership rights relationship: No matter what kind of overseas investment or international economic activities China's internationalized enterprises or transnational corporations take part in, their property rights must be guaranteed. The activities of the "three kinds of wholly and partially Chinese-owned" enterprises and shareholding enterprises overseas not only must generate profit for themselves but should guarantee profit for their owner, that is, the state. Only in this way can they demonstrate the character of their ownership system.

2. The relationship between planning and the market: We have pointed out earlier that the activities of our socialist internationalized enterprises or transnational corporations must comply with the state's economic development strategy and with the demands of the national economic plans. In particular, they must make sure that the state's mandatory plans are fulfilled. This applies to both the production enterprises and the foreign trade enterprises. But at the same time, we should also realize that since these corporations operate within the international scope, their activities must also comply with international regulations and practices, just as all events in the Olympic games must abide by the rules of international competition. Thus, it is very important that we handle the relationship between planning and the market properly. We cannot emphasize one at the expense of the other, nor can we separate the two completely. We must find a good way to integrate the two in our concrete practice.

3. The relationship between management and operation: Transnational corporations based in China should have their own management decision-making system. This system should focus on the nationality industries and

give priority to the country's rights and privileges and manage the subsidiaries, branches, and other subordinate organizations effectively. At the same time, this kind of tight organizational management should be integrated into the relatively independent operations of the subsidiaries. In other words, there must be effective control, but there must also be ways to make the operations more effective, in order to maximize profit.

4. The relationship between the industrial and government sectors: Under China's current management system, besides implementing the state's economic policies and mandatory plans, enterprises that have internationalized their operations must also take into consideration the relationship between the industrial and government sectors. This is because the line drawn between various industries and the division of labor among different government departments tend to overlap, and therefore conflicts and contradictions are inevitable. Thus, it is very important that we smooth out the relationship between the industrial and government sectors, the relationship between different departments, and the relationship between different transnational corporations. Of course, this is an issue that has more to do with macromanagement system, but under the current system, there is much these enterprises that are internationalizing their operations can do also.

From the international standpoint, China's internationalized enterprises or transnational corporations must also handle and deal with a series of overseas factors properly:

1. The relationship with foreign governments: In setting up transnational corporations overseas, we must first decide on which countries and study each country's politics, economics, culture, history, society, folk customs and traditions. Investments abroad must comply with local laws, economic systems, and economic policies, and in particular, they must comply with each country's macroeconomic development strategy and effectively merge into the mainstream of that country's development. Only in this way can we plant a strong foothold and achieve rapid growth.

2. The relationship with foreign enterprises: In allocating overseas investments, besides choosing industries that are key industries being developed and nurtured by specific countries, China's transnational corporations should also handle their relationship with the local enterprises properly. They should learn to compete with but also get along with the others. Because our overseas investments are scattered among countries of different types, different strategies are needed. In view of China's dual role as a developing nation and as a socialist country, China's transnational corporations can get along very well with local enterprises in these two types of countries, even though we will still run into problems such as differences in market mechanisms and various kinds of policy restrictions. As for the relationship with enterprises in the developed countries, competition will play the key role, because our most important task is to

get into and open up those markets. At the same time, we must also consider cooperating with some local enterprises in various ways to compete with the transnational corporations from a third country. Currently, it will facilitate the rapid growth of our internationalized enterprises and help them adjust to international standards if we can win some concrete projects from some international, large transnational corporations and foster certain alliances and cooperations which do not involve equity shares.

As enterprises internationalize their operations, their interrelationships will not be limited to domestic factors but will also involve foreign, multinational, and even intercontinental factors. Therefore, partial or one-sided schemes, policies, measures and practices will have their innate limitations. Thus, in internationalizing enterprise operations, it is important to "know ourselves and know our enemies" and conduct systematic investigation and research and feasibility analysis. Only in this way will we succeed in our endeavors.

#### **Federation Helping Guangdong Import Foreign Funds**

OW2203104591 Beijing XINHUA in English  
0849 GMT 22 Mar 91

[Text] Beijing, March 22 (XINHUA)—The Guangdong Provincial Federation of Returned Overseas Chinese is playing an important role in helping local firms import more foreign funds and advanced technologies.

Last year the federation helped import 118 advanced technological projects and more than 300 million U.S. dollars-worth of foreign investment, according to today's overseas edition of the PEOPLE'S DAILY.

Wang Shanrong, vice president of the federation, said recently that his federation has made great contributions to Guangdong's economic development and especially to the construction of energy and transport facilities by introducing a large amount of foreign or overseas funds to this south China province.

Last year more than 110 million U.S. dollars-worth of investment from Taiwan helped Guangdong's Dongguan City to build new factories, department stores and recreation establishments.

The branch of the federation in Guangzhou, capital of the province, held a commodity fair in Australia last year, reaching a business volume of over five million U.S. dollars-worth.

The federations at various levels in the province have also set up 190 enterprises with a total business volume worth more than 300 million yuan (60 million U.S. dollars) last year.

## **TRANSPORTATION**

### **Sanshui-Maoming Railway in Guangdong Opens**

OW0305185891 Beijing XINHUA in English  
1753 GMT 3 May 91

[Text] Guangzhou, May 3 (XINHUA)—The Sanshui-Maoming railway line, which went into operation today, became Guangdong's second railway line connecting the province with the rest of the country.

The 357-kilometer railway line, which was chiefly funded and built by the local government, forms a railway network which links the Beijing-Guangzhou, Guangzhou-Shenzhen and Lijiang-Zhanjiang railways.

Completion of the railway is expected to facilitate rapid economic development in Guangdong Province, as well as in southern China as a whole.

### **Construction of Hefei-Jiujiang Railway Line Begins**

OW0405165091 Beijing XINHUA in English  
1356 GMT 4 May 91

[Text] Hefei, May 4 (XINHUA)—Construction of Hefei-Jiujiang railway line started here today.

The 305-kilometer railway line will link Hefei, the capital of Anhui Province, with Feixi, Tongcheng, and Susong Counties and Anqing City in Anhui Province, as well as Huangmei County in Hubei Province, and Jiujiang City in Jiangxi Province. The project is one of the 56 key projects approved by the State Council this year.

The railway line, which has a designed annual capacity of 16 million tons, will alleviate the strain on the existing Beijing-Guangzhou and Beijing-Shanghai railway lines. The line will also enhance the development of the rich mineral resources in the Dabie Mountains.

The first stage of the project—the Hefei-Anqing section—is scheduled for completion in three years, and the entire project will be completed by 1995.

### **New Air Route Linking Ningbo, Hong Kong Opens**

OW0405174891 Beijing XINHUA in English  
1436 GMT 4 May 91

[Text] Ningbo, May 4 (XINHUA)—An air route linking the east China port city of Ningbo with Hong Kong opened today.

Beginning today, a joint venture, formed by China Eastern Airlines, the Ningbo Aviation Services, an aviation service company of Hong Kong, and the Zhejiang Tourism Service, will offer chartered services with an MD-82 passenger aircraft to fly round trip flights on Wednesday and Saturday.

A contingent of 140 people, including Hong Kong businessmen, tourists and the press, were aboard today's maiden voyage from Hong Kong to Ningbo.

A Ningbo municipal government official said the new air route will help the city attract overseas investment, as well as tourists from Hong Kong, Taiwan and Macao who wish to visit relatives in Ningbo, which is the birthplace of many wealthy Overseas Chinese.

The joint venture has opened travel offices in both Ningbo and Hong Kong.

## AGRICULTURE

### Inputs for Food Production Projected to 2020

91CE0264A Beijing *NONGYE JINGJI WENTI*  
[PROBLEMS OF AGRICULTURAL ECONOMY]  
in Chinese No 12, 23 Dec 90 pp 43-46

[Article by the Study Group on Material Inputs for Food Production: "Research on Material Inputs for Food Production"]

[Text] If we are to achieve our food production development goals for the next three periods (1995, 2000, and 2020), we must improve returns by readjusting the product mix. Simultaneously, we still need to ensure a corresponding level of material inputs and rely on technical advances to raise the efficiency with which they are put to use. The focus of this research is on analyzing the feasibility of future supply and demand for material inputs.

#### I. Chemical Fertilizer, Agricultural Chemicals, and Mulch Inputs in Food Production

In the past 40 years China's agricultural chemicals industry has grown tremendously. Nevertheless, as of 1989 national output of chemical fertilizers, agricultural chemicals, and mulch was sufficient to meet only 85 percent, 90 percent, and 75 percent of demand, respectively. It has been necessary to import chemical fertilizers, and raw materials to produce agricultural chemicals and mulch.

##### A. Chemical Fertilizer

The status and problems of chemical fertilizer supplies are as follows: First, production and supplies of chemical fertilizer fall short of demand and must be supplemented with imports every year. From 1953 to 1986 China imported 40.03 million tons of chemical fertilizer, worth a total of 12.6 billion dollars in foreign exchange. Second, the ratio of nitrogen, phosphate, and potassium we produce is seriously out of balance. Right now our actual production ratio for these three is 1:0.24:0.03, which means we must import a significant quantity of phosphorous and potassium. The consumption ratio for these three elements is 1:0.32:0.11. This does not meet agriculture department recommendations, which call for a ratio of 1:0.52:0.2, nor does it approach the world

average of 1:0.47:0.37. Third, we produce a poor grade of fertilizer containing a low concentration of available ingredients. Ammonium bicarbonate, which contains 17 percent nitrogen, accounts for 54 percent of all nitrogenous fertilizer we produce; fused calcium-magnesium phosphate, which contains 10-12 percent available ingredients, accounts for 98 percent of all the phosphate fertilizer we produce; and highly concentrated compound fertilizers account for less than one percent of our total fertilizer output.

The annual demand for chemical fertilizer will reach 26-28 million tons in 1995, 31-33 million tons in 2000, and 49-60 million tons in 2020. In terms of standard fertilizer, this is equivalent to 120-130 million tons, 140-150 million tons, and 220-270 million tons at those three intervals, respectively. The NPK ratio should reach 1:0.5:0.2, 1:0.5:0.25, and 1:0.5:0.3, respectively, and the proportion of compound fertilizer should rise to 20 percent, 30 percent, and over 50 percent. It will be difficult to attain these goals, and we will have to import some raw materials for phosphate and potassium fertilizer.

To achieve our goals for chemical fertilizer production, we must adopt a series of effective measures. During the Eighth Five-Year Plan we will need to invest nearly 30 billion yuan. In the next 10 years we will have to invest 25.6 billion yuan to increase production of phosphate fertilizer and to boost phosphate and sulphate components in fertilizer. This will require the state to offer the necessary support, and also encourage all sources of investment.

##### B. Agricultural Chemicals

In 1988 China produced 176,700 tons of agricultural chemicals (this quantity, here and below, is figured in standard 100 percent active ingredients). This included 125,800 tons of insecticides (about 70 percent of the total), 28,600 tons of fungicides, and 21,500 tons of herbicides. The composition of agricultural chemical production has changed somewhat since 1970, when 85 percent of our output was devoted to insecticides.

China's agricultural chemicals industry cannot meet the needs of agricultural development. First, supplies do not meet demand. From 1952 to 1985 we imported 794,000 tons of agricultural chemicals (actual materials), which cost 1.14 billion dollars in foreign exchange. Second, our product mix is not the best: we produce too much insecticide and not enough fungicide and herbicide. Third, we do not produce a wide variety of pesticides: Most of what we have are older types, and we produce a large tonnage of very few kinds of new pesticides. The level of coordination among the different preparations is also quite low. Fourth, we are seriously short of raw materials to produce agricultural chemicals. Fifth, the industrial techniques we use to produce agricultural chemicals are largely outdated, and the purity of the raw



materials involved is quite low. Sixth, there has been insufficient monetary investment in the agricultural chemicals industry.

Between 1990 and 2000 the focus of development in the agricultural chemicals industry in China must be on herbicide production. In 1988 China used chemical herbicides on 240 million mu of land, but by the year 2000 that area will grow to 900 million mu.

If our total output of agricultural pesticides reaches 230,000 tons by 1995, including 190,000 tons of insecticides, 35,000 tons of fungicides, 43,000 tons of herbicides, and 2,000 tons of plant growth regulators, it will basically meet demand, with a slight surplus. We estimate that to achieve what is planned for the Eighth Five-Year Plan we will need to invest 1 billion yuan, and we recommend that one-third of this come from the state. At the same time, we must organize service companies to work with the farm production materials sector, crop protection stations, and agricultural chemicals plants, so that by expanding services and breaching provincial and municipal boundaries, we can provide agricultural services focused on crop protection.

### C. Agricultural Plastic Film

Large-scale use and production of agricultural plastic film in China has primarily developed over the past 10 years. In 1979 only 6.6 million mu of cropland, or 0.3 percent of the total sown area, was planted under crop cover, but by 1988 that area grew to 34.43 million mu, or 1.6 percent of the total. Plastic mulch can boost output 26 percent and cultivation under plastic sheds can boost yields 50-150 percent.

In 1978 China produced 196,000 tons of agricultural film, 53,200 tons of which was used for mulch in 1982. By 1988 we were producing 432,000 tons of agricultural film, and 142,800 tons of it was used for mulch. In terms of production capacity, we can meet the demand for agricultural film. Although plastic film for agricultural use is cheaper than that produced for industrial use, we must import a large volume of resin each year, and the cost has increased. As a result, peasants cannot afford plastic film, and this has affected its extension. Current stocks of agricultural film have been manufactured using ordinary resin rather than with resin designed specifically for that purpose. Thus, the film is single-purpose, weak, lacks durability, and can only be used for a short period of time, which is wasteful.

Projections indicate that the mulched crop area may reach 130 million mu by 1995 and 150 million mu by 2000. We are striving to achieve, by the year 2020, the use of agricultural film mulching techniques on the 320 million mu now suitable for mulching and on the 150 million mu suitable for cultivation under small, medium, and large plastic sheds.

According to Ministry of Agriculture calculations, in 1995 we will need 880,000 tons of agricultural film, including 350,000 tons for mulch; in 2000 we will need

1.23 million tons, including 530,000 tons for mulch, and in 2020 we will need 4.38 million tons.

We will need 2.2 million tons of polyethylene in 1995, 2.7 million tons in 2000, and 5 million tons in 2020. Production capability essentially can meet demand.

### D. Steps and Suggestions

1. We must establish a base to produce special agricultural resin to spur industry to develop plastic film for agricultural use.
2. We must develop new techniques to develop special-purpose materials into agricultural film. Every year we should set aside a certain quantity of the special-purpose resin used for agricultural film, and use it to demonstrate and popularize new agricultural films and techniques. Establishing a direct link between industry and agriculture will help us to improve agricultural film application techniques.
3. We should set aside a certain portion of money from agricultural development funds to use as a fund to develop agricultural applications for plastic.
4. We should make prudent readjustments in policies that apply to the farm plastics industry and grant the "three preferential statuses" to enterprises that produce agricultural plastics: That is, they should have priority in carrying out technical transformation, solving capital construction investment and credit issues, and receiving production materials and energy.

## II. Analysis of Food Production and Development of Irrigation and Drainage

### A. The Status of Development in Irrigation and Drainage Facilities, and Major Existing Problems

China has 2,710 cubic meters of water resources per capita, or approximately one-fourth the world average. Relative to arable land area, we have 1,770 cubic meters per mu, or approximately three-fourths the world average. Regionally, water resources are distributed unevenly, with 81 percent located in southern China, which has 55 percent of the population and 36 percent of the arable land. The four regions of northern China (not including the inland area) have only 14.4 percent of the water resources, whereas they contain 58 percent of the arable land and 43 percent of the population. Water availability varies substantially both within and between years, and droughts are frequent. The natural water quality is quite good, but pollution is growing rapidly. An appraisal of water quality in the 92,100 km of Chinese rivers reveals that only about one-third of the water is suitable for drinking, and 11 percent is unsuitable for irrigation. Pollution prevention and protection of water resources has become a critical issue.

Since the PRC was founded, cropland irrigation has expanded rapidly. Effective irrigation area rose from 240 million mu in 1949 to 728 million mu in 1980. The irrigation drought-prevention standard has risen from 15-20 days to 50-70 days or more. Approximately 400 billion cubic meters of water are used in agriculture each year. As of 1988 280 million mu, 80 percent of China's 350 million mu

of wetlands, had been drained. The control standard was reached once every three to five years on 110 million mu of land, and over five years on 170 million mu of land. Right now two-thirds of China's grain output is produced on irrigated land, as is 60 percent of our cash crops and 80 percent of our vegetables.

Right now the major problems still standing in the way of developing cropland irrigation facilities are: 1. River floodwaters are still a serious threat to China's prime agricultural regions. Nationwide, 40 percent of our people and 35 percent of our cultivated land are situated below the flood level along the middle and lower reaches of major rivers, and 60 percent of the industrial and agricultural output value is produced there. For various reasons the flood discharge capacity along many sections of river is gradually decreasing. 2. The area controlled with existing measures still amounts to less than half of the arable land area. Since the beginning of the 1980's many irrigation projects have shown declining results and a drop in irrigated area. From 1981 to 1988 we have had a net loss of 16.2 million mu of irrigated area, a fact which is not conducive to agricultural development. 3. The Beijing area and many other cities nationwide have serious water shortages that affect irrigation development and limit industrial and agricultural growth. In addition, 50 million people and 45 million head of livestock in agricultural and pastoral regions are waiting for a solution to drinking-water needs, and the task of supplying safe drinking water to rural areas is even more formidable. 4. Many irrigation projects are of poor quality, a great deal of equipment is aging and in need of repair, and results are gradually declining. By the end of this century, facilities and electromechanical equipment installed prior to 1980 will be at or near the end of their useful lives, and it will be both extremely urgent and difficult to replace or remodel them.

#### B. Prospects for Expansion of Cropland Irrigation Facilities

The maximum possible expansion of irrigated area: By the end of this century, when faced with a moderately dry year China will be able to supply 560 billion cubic meters of water for irrigation. Taking everything into consideration, including future land and water resources, technology, and economic conditions, the maximum potential irrigated land area amounts to 960 million mu, or 60 percent of our total arable land area. We can add, at most, approximately 230 million mu to our current irrigated area (720 million mu according to Ministry of Water Resources data). The total irrigated area would then include 536 million mu in the region that encompasses the Huang-Huai-Hai He River Region, the middle reaches of the Huang He, and the inland northwest; 342 million mu in the region including the middle and lower reaches of the Chang Jiang, the Zhu Jiang and Min Jiang, and the southwest; and 82 million mu in the northeast.

At the lower limit of calculations, the minimum essential expansion of irrigated area is whatever is necessary to guarantee basic agricultural goals. Several methods of

calculations are used: One is the economic extension method, in which calculations are based on the relationship between expansion in irrigation and growth in grain yields over several years. Another method is optimization through linear programming. Essentially these two methods produce consistent results. By combining them we can demonstrate that, at minimum, we need to irrigate 800 million mu. Within this 800 million mu, paddy land should increase to 132 million mu, field irrigation should be conducted on 259 million mu, and cash crop irrigation should be practiced on 132 million mu. We must achieve a net increase of at least 80 million mu over 1988, when there were 720 million mu of irrigated area. This should include a net increment of 38 million mu in the region that encompasses the Huang-Huai-Hai He River Region, the middle reaches of the Huang He, and the inland northwest; 8.3 million mu in the northeast; and 27 million mu in the region that encompasses the middle and lower reaches of the Chang Jiang, the Zhu Jiang and Min Jiang, and the southwest.

#### C. Calculations on Construction Project Scale and Inputs

1. We estimate that between 1991 and 2000, 30 million mu of irrigated land will be taken over to build irrigation projects. Consequently we must add this quantity to the net increment in irrigated land that will result from those projects, to arrive at a total of 105 million mu. 2. Cropland drainage projects are expected to bring 30 million mu of land under control between 1991 and 2000, raising the total amount to 320 million mu, 91 percent of our total wetland area, and bringing the control standard up to once every five years on 300 million mu of land. 3. As for saline, alkaline, and flood-damaged, low-yield cropland, between 1991 and 2000 we plan to transform 15 million mu of saline-alkaline land, raising the amount so treated to 89.15 million mu, or 83 percent of the total extant. We also estimate that 40 million mu of flood-damaged, low-yield land can be transformed, raising the total amount so treated to 146 million mu, or 90 percent of the total extant. 4. In pastoral regions we will expand water supplies by 5 million mu between 1991 and 2000, extending the total water-supplied pastoral area to 13.8 million mu. 5. We can essentially solve rural drinking water problems for approximately 50 million people and 40 million livestock.

Projected Investment: We will need a total investment of 71.1 billion yuan for irrigation and drainage projects between 1981 and 2000 [dates as published]. Of which: New construction of irrigation and drainage facilities will require 35.3 billion yuan in investment, including 28.3 billion yuan for irrigation projects, 6 billion yuan for cropland drainage projects, and 1 billion yuan for water conservancy projects in pastoral regions. 2. Remodelling and reconstruction projects will require total investment of 36 billion yuan.

#### D. Development Policies, Measures and Proposals

1. First consolidate gains from existing water conservancy construction. To solve problems with damaged equipment, aging facilities, and declining results, we need to take legal, administrative, and economic steps to enhance management; ensure that water conservancy units gradually become self-sustaining and develop an active, vital mechanism; and completely reverse the current fact that new gains each year are failing to compensate for declining results elsewhere. 2. We need to improve our field flood control and drainage capacity to eliminate hidden dangers. We must continue to strengthen river flood control measures, including making active repairs on many defective and dangerous reservoirs—of all sizes—and augmenting construction on flood detention basins. 3. In newly reclaimed areas we must enhance coordination among water conservancy installations. For example, drainage is needed on the Sanjiang Plain, whereas we need to find supplies of fresh water for reclaimed coastal lands, and sources of irrigation in most other areas. 4. We need to promote water conservation and actively regulate supplementary water resources. A difficult task faces us in future irrigation development, and we must build facilities for water storage and conveyance and make active arrangements to extend conveyance systems into irrigated areas. 5. Our focus must be on enhancing technological upgrading in existing irrigation districts, and we must make the best use of any potential for boosting yields with existing facilities. 6. We need to expand sources of funding and establish a fund for overhauling, remodelling, and upgrading water conservancy projects.

### III. Agricultural Mechanization for Food Production

#### A. Current Status, Problems of Mechanized Agricultural Production

In the past 10 years farm mechanization has expanded at a surprising rate, and we have made conceptual breakthroughs: First, peasants now own 68.8 percent of all large and medium-sized tractors, 93.6 percent of all small tractors, and 66 percent of all farm vehicles. Second, advances in farm mechanization are no longer restricted to cultivation alone; mechanization has also grown rapidly in rural livestock, sidelines, fishery, and processing industries. Third, peasants and farm machinery enterprises are relatively independent commodity producers that together face choices in the commodities market, production and marketing. Fourth, we have established a guiding policy based on experience, suited to local conditions, directed at specific categories, and that achieves farm mechanization through choice, stage by stage.

Problems in the farm machinery industry and energy supplies are: 1. Farm machinery products have a low list price: When the same products are used in consumer appliances or automobiles, the sales price may increase 50 to 100 percent. This means low profits for farm machinery enterprises. 2. There are still significant problems with accessories for farm implements, and product quality remains low.

In the past 10 years agricultural machine power has grown rapidly, but petroleum supplies have grown slowly. On average, the number of working hours available per diesel engine fell from 400 hours per year in 1978 to 172 hours per year in 1988, a 75 percent decline in the annual utilization ratio. The number of working hours available for electric motors fell from 467 hours per year in 1981 to 390 hours per year in 1988, a decline of 16.5 percent. Consequently, although overall agricultural machine power has expanded enormously, we have been unable to increase our actual work capacity. We should gradually eliminate antiquated diesel engines and electric motors and exercise macroeconomic control over their further development.

#### B. Development Projections and Plan Analysis

When considering development options we must consider regional differences and focus on conducting a quantitative analysis of future trends in farm production mechanization.

The forecast for growth in farm machine power is as follows: Using a general quantitative forecasting model, we have produced several sets of possible results for future growth in farm machine power. The low, mid-level, and high estimates for development, respectively, are as follows: Total farm machine power nationwide may reach 320 million kW, 334 million kW, or 340 million kW, by 1990, and rise to 362 million kW, 392 million kW, or 407 million kW by the year 2000.

Through comprehensive analysis, there are three possibilities for future expansion in farm machine power and its effects on food production, primarily cultivation: First, according to general quantitative-model forecasting, by the end of this century total farm machine power may reach 380 to 420 million kW, which would reflect an average increase of 10 million to 50 million kW per year until then. In this scenario problems may include a surplus of machine power, an irrational mix of machinery, and a continuing decline in results. In the second scenario, we would control indiscriminate growth in total machine power and concentrate our efforts on replacing old, outdated equipment, thus increasing the farm machine power utilization ratio. The optimum outcome would be that between 1990 and 2000 the number of tractors actually needed for cultivation would fall to below the number we had on hand in 1987. Total farm machine power would be kept to a suitable level of 210-230 kW. This would mean that diesel engine power would drop from its 1988 level of 164 million kW to less than 100 million kW. This situation, however, would be difficult to bring about. The third scenario is one which falls somewhere between the above two extremes. That is, growth in farm machine power would be curtailed somewhat, but we could replace a considerable quantity of outdated equipment. Total agricultural motive power could be maintained at about 350 million kW. This is the most feasible and practical plan.



#### IV. Energy Consumption and Needs in the Food Supply System

From 1985-1986 China's food supply system consumed commercial energy source, coal, petroleum, and electricity equal to about 360 million tons of standard coal equivalents. This accounted for 31 percent of the total 820 million tons of standard coal energy consumed nationwide, making it our largest energy-consuming system. In the United States, England, and other developed nations, the food supply systems accounts for less than one-sixth of total commercial energy consumption. In 1986 people orally consumed an average of 235.5 kg of standard fuel equivalents per capita. Because the food supply system also consumed a large quantity of nonconventional fuels, equivalent to about 450 million tons of standard coal, total fuel consumption in China's food supply system reached 700 million tons of standard fuel. Consequently, it cost us 4.4 calories of various kinds of energy to produce one calorie of food energy.

Forecasts for future energy requirements in the food supply system are: In 1995 China will have 1.2 billion people consuming 280 million tons of standard coal; in 2000 there will be 1.28 billion people consuming 300 million tons of standard coal; in 2020 there will be 1.45 billion people consuming 350 million tons of standard coal. But if we calculate our own food system's commercial energy consumption based on that of Europe and the United States during the 1970's, China could be predicted to consume 1.75-2.10 billion tons of standard coal per year, we cannot support that level of consumption.

Considering the continued population growth and rising qualitative and quantitative demands on the food system, energy requirements will inevitably increase substantially. However, it is suitable for the food system's energy consumption ratio to remain at the current level of 30 percent of total energy consumption.

#### Using Markets To Develop Comparative Advantage in Agriculture

91CE03294 Beijing NONGYE JINGJI WENTI  
[PROBLEMS OF AGRICULTURAL ECONOMY]  
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[Article by Cai Fang (5591 2499), Institute for Rural Development, Chinese Academy of Social Sciences: "Utilizing Comparative Advantage in Agriculture and Developing Market Mechanisms"]

[Excerpt] The overall goal of China's economic structural reform is to establish a planned commodity economy. Strictly within a framework of planned regulation, market reform is faced with two arduous tasks: developing an effective, comprehensive market system for products and capital goods; and achieving breakthroughs first in some institutions. These tasks are interdependent and indispensable. Without the necessary institutional breakthroughs, the market cannot develop. But reform of a handful of systems is no substitute for the maturing of the market. Reform of the

circulation system of farm products has run into resistance from the traditional pattern of interests, not simply the vested interests of certain strata, but is the result of the operations of the economy under the traditional system. If we rush headlong into reforming the pattern of interests without first changing the operations, we will inevitably run into substantial resistance, leading to social instability. Chinese agriculture is at a stage where its comparative advantage is shifting rapidly and markedly. A comparative advantage strategy will solve the grain supply problem in the 1990's, and remove obstacles to developing the market. This strategy, therefore, may well be regarded as the catalyst in reform aimed at stimulating the market.

#### I. The Comparative Advantage of Chinese Agriculture

A leading sign that an economy is growing and coming of age structurally is that the share of agriculture declines and that of industry and services rises. There are two reasons why the share of agriculture declines, both the outcome of the operation of an economic law. The first law is the law of the declining Engels coefficient. As the economy expands and per capita income goes up, food consumption accounts for a declining share of a household's expenses. This change in the demand structure gives agricultural products a rather limited income demand elasticity. The second law is that of declining agricultural comparative advantage. As the economy develops, renewable capital goods such as capital accumulate and become comparatively plentiful. In contrast, capital goods like land and labor gradually become scarce. As a result, the prices of land, capital, and labor relative to one another begin to change. Capital is no longer as costly as before while land becomes progressively more expensive and the costs of labor also exhibit an upward trend. Thus the comparative advantage of the agricultural sector, which is relatively land- and labor-intensive, shrinks compared to other nonagricultural sectors, which are more capital-intensive. Normally the faster a nation's economy grows, the scarcer its land and other agricultural resources, and the sooner and faster its agricultural comparative advantage declines.

As new China embarked on economic construction, the comparative advantage of agriculture began to decline. However, since the Chinese economy grew only slowly in the pre-reform period and particularly because the relative scarcity of all capital goods has been distorted under the traditional system, the comparative advantage of agriculture has been declining slowly and without any noticeable effects. After 1978, agriculture, industry, and national income grew at an unprecedented rate. Reform has corrected some distortions of the prices of capital goods. Therefore, the decline of the comparative advantage of agriculture has attracted much attention. Between the late 1970's and 1987, the comparative advantage index of Chinese agriculture fell almost one-third. Concomitant with this process, the comparative advantage of the textile and apparel industries, which are labor-intensive, climbed rapidly. Between the 1970's and

1987, their comparative advantage index rose 41.3 percent. As for those industries that are less labor-intensive, their comparative advantage has not changed much. Within agriculture itself, the comparative advantage between different crops has also been shifting because each crop requires a different combination of capital goods. Let us divide China's crops into two broad categories: grain and cash crops. The two categories require labor and land inputs in disparate proportions. For instance, in 1987 the output per working day for China's three leading grains was 16.94 per mu, while the figure was 39.11 for cotton, 37.85 for ambari hemp, 86.46 for ramie, and 48.44 for flue-cured tobacco. We can thus see that relative to cash crops, grain cultivation is more land-intensive but less labor-intensive. But ironically the pattern of China's agricultural resources presents just the opposite picture: scarce arable land, ample labor resources. China's per capita arable land is less than one-third of the world's average. Grain production, therefore, is the relatively disadvantaged sector of China's agriculture, which itself has relatively little comparative advantage. We can figure out the comparative advantage of grain production within agriculture by comparing the share of China's food exports made up of grain with the world's average. As Table 1 shows, since 1980 the comparative advantage of grain was less than one in most years, rising in 1985 before falling back again for each subsequent year.

**Table 1 China's Comparative Advantage Coefficient in Grain**

Year	Comparative Advantage Coefficient in Grain
1981	0.45
1982	0.29
1983	0.43
1984	0.60
1985	1.19
1986	0.89
1987	0.56
1988	0.54

Source: FAO Trade Yearbook, Chinese Statistical Yearbook.

## II. A Strategy to Exploit Comparative Advantage

China's economic reform consists of two parts: economic structural reform, and adoption of a new development strategy. The two are closely related and condition each other. As noted above, the overall goal of reform is to establish a planned commodity economy. To achieve this goal, the traditional planned economic system must be replaced by a mix of planning and market. As for the development strategy, the old strategy of making heavy industry a priority should be replaced by one that taps comparative advantage. The goal of the latter strategy is to upgrade the industrial structure and coordinate industrial development. The required corresponding macroeconomic policy environment must be

one where the prices of both capital goods and products reflect their respective scarcity. The two strategies produce drastically different consequences. In China, for instance, the textile and apparel industries have comparative advantage while other manufacturing industries do not. However, the textile and apparel industries do not meet the requirements of the strategy that emphasizes heavy industry as a priority and have therefore been neglected under the traditional strategy while heavy industry, which has no comparative advantage, has been favored. This has led to a lopsided industrial structure. There is limited ability to absorb manpower. The process of reducing the share of agricultural manpower is delayed. In contrast, the strategy of exploiting comparative advantage seeks to bring out China's strength of ample labor resources but lack of funds through the comparative prices of capital goods to encourage the development of labor-intensive industries. It will make the industrial structure even more compatible with the national condition, further harmonize the relationship between industries, and speed up the upgrading of the industrial structure.

The core of change in economic development strategy, therefore, is the need to overhaul a series of low-interest rate, low-exchange rate, low-wage, and low-price policies existing now that distort price signals, let the market set prices, and let prices determine the supply and demand of capital goods and products. Only after price distortions are corrected will technical and institutional innovations meet our need and only then will resource allocation be logical. After adopting a strategy of comparative advantage, we should pay close attention to China's rapidly declining agricultural comparative advantage and the fact that grain production has no comparative advantage vis-a-vis cash crop cultivation. And should figure prominently in our industrial policy. In particular, whether or not agricultural development policy, a key component of industrial policy, complies with the principle of comparative advantage determines the nature and direction of change of the agricultural economic system. If we try to maintain self-sufficiency in agriculture and grain in the absence of comparative advantage, we incur losses, a loss that could have been avoided through regional specialization. In other words, when we reject regional or international specialization, the prices of agricultural products include in part the material losses. There are usually three ways to cover this extra loss or cost.

The first solution is to control production and circulation and have the producer bear the loss. This method is not effected through the relative prices of agricultural products. Instead it is achieved through command planning and strict restrictions on the transfer of agricultural capital goods, thereby drastically lowering the opportunity costs of capital goods invested in agricultural and grain production and giving the peasants no choice other than to plant. This is actually a form of taxation. In the past China adopted a tax policy that sought to keep the price scissors and establish a corresponding set of institutions. First, cut off the circulation channels of capital

goods and separate the city from the countryside. Second, strictly limit and control the use of capital goods with the establishment of the people's commune system. Third, enforce command cultivation planning and introduce a system of state monopoly on purchase and marketing characterized by a specified procurement amount. This mechanism imposed an extra levy on agriculture ("over-taxing" agriculture), and passed onto peasants the net material loss created by the absence of comparative advantage.

The second solution is protectionism achieved in one of two ways: one, raise the procurement prices of agricultural products and grain, with the treasury absorbing these extra costs, and, two, deregulate the prices of agricultural products and grain on a closed market and make the consumer bear this loss. The former approach seeks to maintain a comparative price structure that makes agricultural and grain production profitable through a subsidy policy. This approach runs the risk of price ratios going up and down, and the national treasury cannot bear the burden. Reforming the circulation system of agricultural products and price formation mechanisms is necessary for the creation of a planned commodity economy and is also an inevitable development. But there are three points we must consider here. First, sharing the material loss resulting from the lack of comparative advantage in agricultural and grain production, in a closed economy, as the incomes of urban residents increase, it is certainly reasonable to pass onto the urban consumer the costs of agricultural and grain expansion. But reform in China is also accompanied by a drive to open up to the outside world. As the economy develops, it will necessarily become more export-oriented. In an open economy, it is unreasonable to ask consumers to bear the bulk of losses, resulting from the sacrifice of comparative advantage by the producer. Second, actually the material loss created by the lack of comparative advantage in grain production has become a hefty expense in the reform of the grain circulation system and price formation mechanisms. The expectation that the consumer has to bear this expense is an obstacle to reform. Overcoming this obstacle regardless of the problems carries with it the risk of stirring up social instability. Third, the presence of risk has heightened political resistance to more thoroughgoing market-oriented reform. To reform against this background is necessarily to compromise. In other words, the final outcome may be a mix of control, subsidy, and marketization, with the net material loss resulting from self-sufficiency in agriculture and food being shared by peasants, government, and consumers, giving rise to multiple problems. For instance, to protect agricultural and food production inevitably involves border protection. As the Chinese economy becomes more and more export-oriented, border protection must give rise to trade friction. A dual system combining control with the market will lead to high levels of rents. Rent-seeking behavior will appear, leading to well-entrenched interest groups, which will become an obstacle to continuing

reform. The peasant still cannot become a full commodity producer. Agricultural resources will not be optimally distributed and agriculture as a whole will be neither efficient nor independent.

The third approach is to adopt a comparative advantage industrial policy. The loss resulting from the absence of comparative advantage in agricultural and grain production may be made good through international and regional trade. [passage omitted]

Given the fact that Chinese agriculture lacks comparative advantage, we cannot ultimately solve the agricultural problem without considering international trade. However, the future of agriculture in the final analysis does not lie in natural resources, but in raising the level of inputs and improving technology and quality of people. Macroeconomically China should concentrate on establishing an efficient independent agricultural economy. Because of these two considerations and to solve China's food problem in the 1990's and accelerate the optimization of the Chinese economic structure and promote reform of the circulation system of farm products, it seems that it is both proper and necessary for us to increase grain imports as appropriate and expand cash-crop exports.

### III. Leaving the Dual-Track Circulation System for Farm Products

To date reforms to make the circulation system of farm products more market-oriented have made important progress. But such reforms have come about amid state procurement of grain and monopolized trading in cotton. They have led to a dualism in the circulation system for farm products, which has seriously impeded the continuing development of agriculture. For instance, dualism has depressed the relative prices and hence profits of grain and cotton. If we list farm products by the duration and extent to which they have been deregulated as far as prices are concerned, we can see that the earlier and the more extensively a crop was deregulated, the more enthusiastic its growers, the narrower the supply-demand gap, and the more satisfied the consumer. It can be seen that the effort to get out of the dual track circulation system is market-oriented but remains within the broad framework of the national macroeconomic regulation and industrial policy. But continuing reform of the agricultural circulation system is certainly difficult. First, we have no knowledge of the basic design of the new system. Second, reform of the circulation system and price formation mechanisms involves many interests and is closely related to the urban economy. Hence it is highly risky and difficult. Starting from these two basic points, continuing reform of the agricultural circulation system must proceed steadily step by step. Institutional breakthroughs must be combined with institutional construction so that difficulties and risks are spread out in practice. The thrust of reform of the circulation system of farm products in the long- and medium-term should be the reform of the grain procurement and marketing system and the price formation



mechanisms. Reform of the grain circulation system should be tackled as three separate parts: first, establish a support system for reform of the circulation system of farm products; second, establish a model project or experimental system for such reform; and third, plan and implement a policy system for such reform.

### Liaoning 1989 Rural Survey

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[Article by Wang Daduo (3769 1129 6995) of the Liaoning People's Government Rural Development Research Center: "Both Achievements and Problems, Both Growth and Difficulties—A Look at Liaoning's Present Economic Situation Through Survey Data from Rural Fixed Observation Points"]

[Text] To understand in a timely manner the actual situation and range of growth with respect to rural basic-level reform and construction and to seek the objective requirements and solutions needed to solve difficulties and problems now being faced, we carried out, over a three-year period, a rural socio-economic survey. We completed dynamic observations and follow-up surveys once a year in villages designated for long-term fixed observation and associated with the 12 national rural surveys, at locations in different model economic regions of Liaoning. We obtained 385,313 items of survey data and a large amount of dynamic information from 12 villages, 1,200 peasant households, 74 village- or group-operated enterprises, and one economically integrated organization. We hope, through preliminary analysis of this data, to provide a certain foundation for and suggestions to departments responsible for rural work and to leading comrades directing rural economic work.

### Enhanced Status of Household Management, Improvement in Peasant Standard of Living

1. Since the advent of rural reform, the rural economy has undergone immense change. The main reason is that the contract system of responsibility linked to production with its emphasis on household management has reassured the broad peasant masses and aroused their enthusiasm for socialism. However, owing to a variety of factors, agricultural production has again suffered from fluctuations in recent years. Confronted with this situation, some people have raised doubts about the contract system of responsibility linked to production which the peasants have accepted so well. They have even wavered in recognizing the fundamental position of peasant household management as part of the rural two-tier management system. The survey makes clear that these doubts and waverings are not correct and that they do not conform to objective reality of rural economic growth. The facts show that we cannot allow the household management tier to be neglected or weakened. It is

of extreme importance that we, first, must persist in it and, second, must perfect it step by step.

2. Income from household management accounts for a large portion of the rural economy's total income. Crop cultivation and livestock now accounts for a large portion of income from household management. Statistics show that, during 1989, total income for the various forms of production management in the 12 villages surveyed was 88.07 million yuan. Of this amount, peasant household management income came to 29.18 million yuan and accounted for 33.1 percent of the rural economy's total income. The income for partnership or individually contracted village- or group-run enterprise operations was 27.53 million yuan, accounting for 31.2 percent of the rural economy's total income. The latter (household and independent management of production and contract management of production) repeatedly increased, accounting for 64.3 percent of the rural economy's total income. Looking at the annual household income for the 1,200 peasant households surveyed, we see that this characteristic is especially obvious. The total annual income in 1989 for the 1,200 peasant households surveyed was 9.04 million yuan. Of this amount, income for household management came to 6.78 million yuan and accounted for 75 percent of total income. Income from individual or partnership contracted management and from external labor services came to 452,000 yuan and accounted for five percent of total income. The latter repeatedly increased, accounting for 80 percent of the total annual income for households.

3. Even though economic growth in villages tended to be slow in 1989, the actual standard of living of the peasants still saw a certain improvement. This was due to a considerable internal vitality that the peasant household management possessed. Of the 9.04 million yuan in total annual income earned by the 1,200 peasant households surveyed, a total of 8.13 million yuan went for expenditures. Income was somewhat greater than expenditures. Per capita net income was 1,036 yuan. Compared to the 1988 income of 962 yuan, this was an increase of 37.7 percent. However, if inflation is factored in, actual per capita net income declined 13.9 percent.

4. Characteristics of peasant income: (A) Growth in total income and net income are not in step. In 1989, total annual income for the 1,200 peasant households increased 699,700 yuan compared with 1988, a rise of eight percent. However, total net income for households increased 304,000 yuan compared with 1988, a rise of 6.2 percent. The reasons for this were, first, an increase in expenses for household management. In 1989, their total expenses increased 226,000 yuan compared to 1988, a rise of 8.2 percent. Second, it was a reflection of the fact that income from household management had become the main source of increases in income for peasant households. We can see from this that, if we are to sustain the momentum of increases in peasant income, we will have to ease the pressure on the peasants with respect to the illogical price relationship between agricultural sideline products and capital goods used in

agriculture. On the other hand, we also will have to give a high degree of attention to guidance and support for peasant household management. (B) Cash income has obviously increased. In 1989, cash income for the 1,200 peasant households amounted to 7.77 million yuan (1,543.7 yuan per capita), an increase of 7.6 percent compared to the 7.22 million yuan (1,415.1 yuan per capita) for 1988. Of this amount, cash income from the sale of agricultural sideline products increased 516,000 yuan in 1989 compared to 1988, a rise of 23.7 percent and a per capita increase in income of 102.5 yuan. This shows that, at present, the pace of transition in the countryside from a self-sufficient or substantially self-sufficient economy to a commodity economy is picking up more and more speed. (C) Income obtained from collective unified management and income obtained directly from individual or partnership contracted management has declined per capita. The former has dropped 307,000 yuan, a decline of 21.8 percent. The latter has dropped 37,000 yuan, a decline of 15.5 percent. These figures prove that household management has now become a fixed state of affairs and, at the same time, reveal the harsh reality of the slump in which village-level collective unified management and village- or group-operated enterprises now find themselves. (D) Increases in crop cultivation and nonagricultural industry have become the two principle sources of increased income in peasant household management. In 1989, income from crop cultivation was 3,354 million yuan, an increase of 637,000 yuan compared with 1988 and a rise of 23.5 percent. Income from nonagricultural industry was 1,958 million yuan, an increase of 239,800 yuan compared with 1988 and a rise of 14 percent. The data show that, at present, the vast majority of peasant households still mainly rely on the land to earn their keep. Crop cultivation provides them with their main source of income, and development of nonagricultural industry is in the process of opening up avenues of prosperity to them. (E) The number of high-income households is rising, and the number of low-income households declining. Of the 1,200 peasant households surveyed, 501 had per capita net incomes above 1,000 yuan (an increase of 108 compared to 1988), accounting for 41.8 percent of the total number of households surveyed; 95 poor peasant households had per capita net income of below 300 yuan (a decline of 188 compared to 1988), and they accounted for only 7.9 percent of the total number of households surveyed.

5. Characteristics of peasant expenditures: (A) Living expenses are increasing. Cash outlays used in the purchase of consumer goods have risen. In our survey of the annual expenditures of the 1,200 peasant households, we found that outlays for consumer goods in 1989 came to 3,756 million yuan, a 13.3 percent increase compared to 1988. (B) The mix of the main edibles consumed during the year underwent a change. (Except for a slight decline in the amount of grain and edible oil consumed, the amount of meat, eggs, vegetables, milk, fruit, sugar, poultry, fish, and shrimp consumed increased somewhat compared to 1988.) This shows that variety in the

peasant diet improved somewhat along with the increase in their income. Their diet is now changing from one that is simply filling to one that is nutritious. (C) The volume of principle durable goods possessed at the end of the year increased somewhat. (D) Savings account balances increased from 1,848,000 yuan at the end of 1988 to 2,085,000 yuan at the end of 1989, a rise of 12.8 percent, and cash on hand increased from 1,941,000 yuan at the end of 1988 to 2,408,000 yuan at the end of 1989, a rise of 24.1 percent.

**Income Disparity Between Peasant Households Is Still Large. Regional Inequalities Between Rich and Poor Are Becoming Increasingly Prominent**

1. The experience of the past 10 years with rural reform has proven that breaking the shackles of the old system of "ownership at three levels, with the production team as basic" greatly liberated agricultural productive forces, and up to now, China's agricultural economy has been shifting its main focus from meeting the needs for food and shelter to meeting the goals for a comfortable standard of living. This, in effect, changed the slow economic growth in the countryside that existed prior to the 3d Plenary Session of the 11th CPC Central Committee and changed the old pattern of universally low peasant incomes with little disparity between them. It enabled many peasant households, under the guidance of party policies for enriching people, to quickly attain "a comfortable standard of living" and step into the ranks of the first to become prosperous. There also occurred at Liaoning's 12 villages designated as fixed observation points a tendency for the incomes of some peasant households to increase a great deal more than those of the average peasant household and for the gap between incomes to constantly widen. At the present stage, this tendency for a portion of people to become wealthy first and to give impetus to the majority of people to take the path toward common prosperity has become a historic inevitability. However, it should be observed that this does, after all, embody a rather complex social phenomenon. Therefore, party committees, government, and policy study departments should closely attend to this and, on the basis of their investigations and studies, formulate policies and measures that are practical and feasible, speed up the pace at which the peasants of the poor regions are becoming prosperous, and narrow the large gap between rich and poor of the different economic regions. This will enable the broad peasant masses to realize the ideal goal of a common prosperity as soon as possible and give full expression to the superiority of the socialist system.

2. Statistical data from 1,200 peasant households surveyed, show that, in 1989, the number of especially poor households with per capita net incomes of 200 yuan or less yuan declined from 16.9 percent of the total to 3.7 percent, a reduction of 13.2 percentage points. The number of poor households with per capita net incomes from 201 to 300 yuan declined from 6.7 percent of the total to 4.3 percent, a reduction of 2.4 percentage points. Prosperous households with per capita net incomes of

701 to 1,000 yuan and high-income households with incomes over 1,000 yuan had large increases. They went from 48.8 percent to 59.2 percent, an increase of 10.4 percentage points. This shows that, at the same time that low-income households were declining and high-income households were increasing, the income gap between peasant households was still quite wide and the inequality between rich and poor quite prominent. For this reason, local government should provide preferential policies to help sustain the 95 peasant households (accounting for eight percent of the total) that are still living below the poverty line to enable them to extricate themselves as soon as possible from their impoverished plight through hard labor and arduous work.

3. There are many reasons for the wide disparity in peasant income. However, judging from the survey of 12 villages designated as fixed observation points, differences in the socio-economic environment constitute the principle influence on household income. Of course, the peasants' own awareness of the commodity economy and the quality of their scientific knowledge and their cultural level are also important factors. For example, prosperous and high-income households are mainly concentrated in economically developed regions, in large cities, towns, and suburbs, and in coastal fishing villages. Poor and low-income households are mainly concentrated in poor mountain regions with harsh natural environments and in minority nationality regions. We can predict that, because of these poor mountain regions, harsh natural environments, deficient natural resources, inaccessibility, people's poor concept of the commodity economy, and a work force with a low-level of scientific knowledge and a low cultural level, it will be very difficult, in a short period of time, to do away with their poverty and backwardness, to achieve prosperity, and to increase their economic income. In view of this situation, in addition to doing a better job of further implementing party policies to assist the poor, we should actively support and encourage peasants of economically developed regions to invest their funds and skills, use the abundant labor force and resources of the poor regions, and strengthen horizontal economic ties and cooperation, thereby enabling the poor regions to throw off poverty and attain prosperity as quickly as possible and gradually lessening the prominence of the contradiction with respect to regional inequalities between rich and poor.

#### **Slowdown of Economic Growth in Villages and Difficulties Faced by Village- or Group-Run Enterprises**

1. The growth of township and town enterprises now occupies an important position in China's political, economic, and social life and is playing an ever greater role in building and developing our country's economy. Pertinent statistical data show that the total output value of township and town enterprises in 1989 was equal to the total social output value of the entire country in 1979, that the fixed assets they possessed and their circulating funds increased 11-fold compared to 10 years before, and that the profits tax they turned over to the

state increased 13-fold. Village- or group-run enterprises are a major component of township and town enterprises, as well as a important mainstay in developing village economies. In the course of constantly strengthening rural reform, they are playing an ever more obvious and important role in strengthening village collective economies and in laying an economic foundation for perfecting the socialized services system. Experience has proven that the reason the four villages of Houshi, Hunhebao, Xingjia, and Tuchengzi, which are among Liaoning's 12 fixed observation points, are relatively prosperous is closely tied to the strength of their collective economic foundation and to their many village- or group-run enterprises. These four villages have 66 of the 74 currently existing village- or group-run enterprises, 89.2 percent of the total. Along with constant improvement and perfection of the two-tier system of production management and improved standards in management by peasant households, the countryside's surplus labor force is bound to increase more and more. Village- or group-run enterprises can offer job opportunities to these people, provide a refuge to a changing agricultural labor force, and play a positive role in stabilizing rural society. The social benefits and far-reaching significance of village- or group-run enterprises cannot be underestimated. However, after a year of dynamic observations, we found that the present village- or group-run enterprises are in decline, a situation that should arouse the concern of various quarters.

2. There is a tendency for village- or group-run enterprises to decline. In 1989, the total number of village- or group-run enterprises decreased by three compared to 1988, a decline of four percent. In 1989, 2,928 persons were employed in the enterprises, a reduction of 430 compared to 1988 and a 12.8 percent rate of decline. The number of persons coming from outside the villages was 765, a reduction of 324 compared to 1988 and a 29.8 percent rate of decline.

3. Labor input has decreased, operations are under capacity, and operational expenses have increased. In 1989, the total amount of labor input was 902,000 work days, 142,000 fewer than in 1988 and a decline of 13.6 percent. The amount of labor input from recruited workers came to 263,000 work days, 40,000 fewer than in 1988 and a decline of 13.3 percent. Total operating expenses in 1989 was 43.08 million yuan, an increase of 4.887 million yuan compared to 1988 and a 12.8 percent rate of increase. Total wages increased 2.2 percent, payments for recruiting workers rose 17.5 percent, interest payments rose 224 percent, and fixed assets depreciation rose 138 percent.

4. Income during the year decreased, and economic efficiency declined. In 1989, cash income came to 20.45 million yuan, a decrease of 11.21 million yuan compared to 1988 and a decline of 35.2 percent. Operational cash income decreased 12.31 million yuan, a decline of 48.8 percent. Owing to an energy crisis, a rise in the price of raw and processed materials, a slump in market sales, and an oversupply of finished goods, most enterprise



production inevitably fell into difficult straits and annual profits declined. Total profits for 1989 came to 6.08 million yuan, a decrease of 1.138 million yuan compared to 1988 and a decline of 15.8 percent. Net profits were only 262,000 yuan, a decrease of 1.031 million yuan compared to 1988 and a decline of 79.7 percent. Taxes handed over to the state during the year still increased. In 1989, a total of 3.376 million yuan was paid, an increase of 668,000 yuan compared to 1988 and a rise of 24.7 percent. However, funds turned over to village or group collectives and used to expand reproduction, for dividends, for workers welfare, and for public contributions have all greatly decreased. To extricate themselves from this difficult situation, they must adopt the following measures. First, they must strengthen the confidence of village- or group-run enterprises, and during improvement and rectification and the deepening of reform, persist in the thorough implementation of the policies of "active support, logical planning, correct guidance, and strengthened management." They must actively carry out enterprise internal readjustment in compliance with the demands of the Central Committee with respect to "readjustment, rectification, reform, and improvement." They must take the approach of self-development and self-perfection, and they must make the shift from speed to efficiency, from being labor intensive to a combination of being labor intensive and technology intensive, and from being purely inwardly oriented to a combination of being inwardly and outwardly oriented. Second, they must strengthen enterprise management work with a focus on improving product quality and economic efficiency and comprehensively improve their standards of scientific management with respect to labor, production, technology, and financial administration. Third, they must enter into and develop production competitive activities that focus on increasing production and practicing economy, increasing revenue and reducing expenditures, decreasing waste, and raising quality by improving labor productivity, capital output, and economic efficiency, thereby initiating a brand new situation with respect to the sound development of village- or group-run enterprises.

### Conclusions

The above analysis makes us realize that Liaoning's rural economy is not only regionally very diverse, it is also characterized by both achievements and problems and by both growth and difficulties. The solution to some problems will require the active guidance of party committees and government and their policy decisions. As long as we can firmly grasp the historical opportunities presented by improvement and rectification and continuing reform and are vigorous and bold in our explorations, the prospects for rural reform and construction are unlimited. If every industry and trade, every relevant department, and leading comrades all can recognize the fundamental position and importance of agriculture from the strategic point of view of a stable economy and

stable society, if they adopt measures to improve policies, strengthen science and technology, increase investment, and speed up development, and if they fully arouse the enthusiasm of the broad peasant masses for socialism, then, the implementation of the goal of sustaining a stable and harmonious growth of Liaoning's rural economy cannot be far off.

### Socialized Services To Boost Rural Reform

91CE0395B Beijing JINGJI RIBAO in Chinese  
2 Mar 91 p 2

[Article by Zhang Guangyou (1728 1639 0645) and Zhao Huazhou (6392 3478 5153): "Socialized Services Open Up a New World for Household Economy"]

[Text] The rural areas of China have implemented the household output-related contract responsibility system for 10 years. Now more and more people have finally reached a common understanding in accordance with the basic trend of thought of rural reform and development in China. That is: developing socialized services and stabilizing and perfecting the responsibility system based on household output-related contract is a way of deepening the rural reform.

Judged from its original meaning, the household output-related contract system includes the two levels of household management and service-oriented unified management. Such a management method which combines decentralized management with unified management is widely applicable. It suits the current situation dominated by manual labor and the characteristics of agricultural production. It also meets the need of the development of productive forces in the course of agricultural modernization. The key to perfect the output-related contract responsibility system is to properly handle the relation between unified and decentralized management. Socialized services should be strengthened to develop the intrinsic superiority of household management and overcome its limitation. In this sense, the quality of socialized services has a great bearing on whether or not household management can function fully.

The practice of many localities has proven that under the condition of household output-related contract responsibility system, agricultural production will flourish as long as socialized services are strengthened. Dixian Prefecture, Anhui Province, the birthplace of the "great responsibility system," increased its grain production for 11 consecutive years, setting a new record every year. In 1989, its commercial grain was several hundred million jin higher than the total grain output of 10 years ago. Its crop-growing and breeding industries and township enterprises all made rapid development. An important experience of this prefecture is that it has made great efforts to establish multi-level serialized service network. The "six stations and one company" of agricultural economy, technology, and machinery can be found everywhere in the prefecture.

In the developed countries of the world the basic form of agriculture is generally household management which is closely linked to developed socialized services. According to data from a 1982 survey in the United States, the country had a total of 2.24 million farms and 1,991 million of them or 89 percent are family farms, accounting for 81 percent of total acreage of farmland. Japan realized agricultural modernization in the mid 1970's, but in the 1980's over 90 percent of agricultural production organizations were basically family farms without hired hands whose management scale was under 1.2 hectare. The situation in the EC countries is also generally the same. In these countries, the percentage of labor force directly engaged in agricultural production is much smaller than that directly or indirectly engaged in agriculture-oriented services. For example in the United States, the latter accounts for about 30 percent while the former accounts for only about nine percent. Of course, our social system is completely different from that of capitalist countries, and we cannot copy their practice. But we cannot say that the road of socialized services is without any value as a reference.

Developing socialized services is an important step toward the specialization and socialization of agricultural production. Judged from the viewpoint of perfecting the household output-related contract responsibility system, it is the central link in deepening the rural reform. Along with the development of socialized services, people can see that behind such activities, the rural economy is quietly carrying out realignment and separation. On the one hand, productive factors are realigned—service networks at different levels such as county, township, village, and integrated farming households realign productive factors including technology, funds, and labor forces owned by the state, collectives, and individuals to turn potential productive forces into real productive forces. On the other hand, the production process is broken down—the functions of a complete production process including different links before, during, and after production, which used to be carried out by one household, has been broken down and separated. It is this kind of realignment and separation that has overcome the isolated situation of the rural self-sufficiency economy, made farmers' household management a link in the complete chain of social production, and put it into the coordinated system of large-scale socialized production. By so doing it has accelerated the process of agricultural specialization and socialization and created favorable conditions for spreading advanced science and technology to develop rural commodity production.

Within the sector of agriculture, combining small-scale household management with socialized services can produce the effect of scale economies. As far as the scale economy of agriculture is concerned, it means more than just the increase of land quantity in one management unit and the centralization of manpower and material resources in one place, which is only one of the various forms, not all. Another form is to achieve the economies

of scale by combining all productive factors except land by raising the level of specialization and socialization. Currently in most rural areas of China peasants have many misgivings and obstacles to overcome when they leave land because nonagricultural undertakings are not very developed, and neither subjective nor objective conditions are available for the scale economies of land. But peasants are very glad to accept the practice if we start it with service. This is because socialized services can satisfy peasants' demand for developing production and does not touch upon the decision-making power of production and management which is most sensitive to farmers. Second, outside the sector of agriculture, socialized services have built, with economic means, a bridge between small-scale production and large markets and between the economic activities of millions of farmers and the state plan. Through socialized services the state can provide needed information. Through monetary, technological, and material support, the state can give policy guidance in accordance with the state plan and market demand to influence farmers in production and management decisions so as to reduce the blindness unfavorable to the state plan and increase the scientific nature and accuracy of the state plan while eliminating the risks created by market fluctuation for farmers. It seems that organizing production through services in the areas of circulation, finance, material supply, and science and technology is an important content of perfecting the household output-related contract responsibility system.

Developing socialized services is also related to perfecting the structure of the rural areas and conducive to promoting the construction of grassroots organizations and the change of cadres' work style. About 20 percent of village-level organizations in China's rural areas do not function effectively. Practice shows that areas which provide good socialized services generally have better grassroots organizations whereas areas which provide little or even no services generally have ineffectual grassroots organizations.

Developing socialized services inevitably involves the issue of developing the collective economy. Currently many rural areas in China do not have a strong collective economy. The level of unified management is rather weak. In a few areas, there are "only collectives but no economy." Along with the development of the commodity economy, even areas which have a fairly solid basis of collective economy cannot satisfy the increasing demand of peasants on collective services. To stabilize and perfect the household output-related contract system, we must simultaneously develop the superiority of collective management and the enthusiasm of farmers' household management. Practice shows that developing the level of unified collective management is conducive to increasing accumulation for expanding reproduction, adopting advanced science and technology, developing farmland capital construction, increasing the capability to resist natural disasters, and developing public cultural and welfare undertakings.

Rural grassroots organizations can be attractive and have the cohesive force only if they master considerable economic power, provide services needed by peasants, and reduce peasants' burdens.

Practice has proven that the responsibility system based on household output-related contracts has great compatibility and vitality and that it must be stabilized as a basic system of rural areas and continue to be perfected. Failing to see this point, some people have been confused in recent years over how to continue rural reform. They keep trying to find "new measures" to continue rural reform outside the household output-related contract responsibility system, causing rural reform in some areas to stagnate. This should be a lesson. Currently, it is noteworthy that guiding principles and concrete methods are not exactly the same while we emphasize the development of socialized services and economic development. Therefore, we must persist in reform and progress. We should pay special attention to guard against the restoration of old systems and the recurrence of past mistakes.

### Heilongjiang To Develop Livestock Industry

91CE04884 Harbin HEILONGJIANG RIBAO  
in Chinese 22 Feb 91 pp 1, 2

[Article entitled "Heilongjiang Provincial People's Government's Decision on Accelerating the Development of the Livestock Industry 29 Jan 1991"; the first paragraph is a source supplied synopsis]

#### [Text] Synopsis

During the Eighth Five-Year Plan period, the livestock industry's output value is expected to increase eight to ten percent a year, and by the end of the period, it should account for 20-22 percent of the GVAO. Heilongjiang aims to maintain the direction of decontrolling and enlivening livestock product management; use science and technology to develop the livestock industry; insist that the state, collectives, and individuals work together; actively develop a reasonable scale of operation; tap new fund sources; increase investment in the livestock industry; use forage resources fully; accelerate the development of the animal feed industry; promote the restructuring of the livestock administration and management system, and provide stronger leadership to the livestock industry.

The following decisions have been made to accelerate the development of the livestock industry, gradually raise its role in the agricultural sector, and promptly turn it into the mainstay industry of Heilongjiang's rural economy:

1. The goal in developing the livestock industry during the Eighth Five-Year Plan period is to vigorously develop dairy cattle output, sustain steady development of poultry, mutton, and beef production, and strive to become self-sufficient in pork production in two to three years. The livestock industry's output value should increase eight to ten percent a year, and by the end of the

Eighth Five-Year Plan period, it should account for 20-22 percent of the GVAO.

2. Maintain the management direction of decontrolling and enlivening livestock products. Hog operations will gradually be decontrolled, different management channels opened up, and different forms of integrated, production-processing-sales economic communities will be set up. Contracts with peasants will be entered into on a voluntary basis based on the principle of mutual benefit. On the management side, slaughtering will be done at fixed sites where inspections can be carried out and taxes collected centrally, and all sales will require certification. The supervisory department must take its responsibility seriously and protect the state's and the consumers' interests. Harbin, Qiqihar, Mudanjiang, Jiamusi and other large and mid-sized cities and industrial, mining, forestry, and oil-producing regions should abide by the principle of benefiting all parties and foster stable purchase and sales relations with the production regions. To readjust markets and curb price increases, regulatory funds should be set up in qualified regions, and a minimum guaranteed procurement price should be set.

Poultry, eggs, cattle, and lambs should continue to be managed through several channels. Prices should be set by the market. Wool should continue to be managed by supply and marketing cooperatives, the livestock, industrial, and commercial companies; and by herdsmen who make direct deliveries. Upon guaranteeing the province's own needs, producers and managers should be permitted to make direct sales and ship wool out of the province.

3. Rely on technical improvements to develop the livestock industry. The core of using science and technology to invigorate animal husbandry lies in four words—"fine" breeds, "good" feed, "standardized" livestock management, and "scientific" disease prevention. We must vigorously propagate the five comprehensive techniques of fattening hogs rectilinearly, increase total chicken production, fatten beef cattle centrally, increase mutton and wool yield concurrently, and increase the per unit yield of dairy cattle. In view of Heilongjiang's very long winter season, we should propagate such practical techniques as silage, plastic hothouse, and rectilinear fattening method. We need to increase technical training, promote scale economy, improve management, and perfect the socialized service system.

Localities must extend their support in terms of funds and goods and materials to gradually raise the livestock industry's scientific and technological standards and modernize its backward means of disseminating information. Depending on each locality's financial ability, we should gradually raise the grass-roots veterinarian personnel's subsidy, increase allocation of funds for propagating new techniques, and improve the livestock industry's infrastructure. Animal husbandry departments at all levels must amplify and perfect the system of



providing improved breeds, forage grass and feed, disease prevention, and technical education and other services. All relevant colleges, universities, and research units must pay close attention to livestock production, train specialized personnel, and strive for scientific and technological breakthroughs. We must vigorously promote and set up entities that integrate science and technology, propagation, and production and actively promote different forms of contracting and accelerate the conversion of the fruits of scientific research.

4. The state, collectives, individuals must work together to actively develop a reasonable scale of operation in raising livestock. While encouraging the development of family-based livestock industry, we should actively support fairly large-scaled, specialized animal husbandry households and families or cooperative ranches by giving them special preferences when allotting forage land and pasture, set up sheep pens and cow sheds, provide technical services, supply goods and materials, and grant loans. We must run the state farms and pastures properly and provide improved crop varieties and breeds of animal (poultry.)

State farms should make full use of and give play to natural resources and make developing the livestock industry an important part of their effort to optimize the industrial structure and increase the effective supply of livestock products. Industrial, mining, forestry, and oil-producing regions should put the development of the livestock industry on their agenda and mobilize all positive factors to build more and better livestock bases and raise our level of self-sufficiency in animal products.

5. Heilongjiang will tap new fund sources and increase investment in the livestock industry. We must solve the livestock industry's development fund problem via many channels, at different levels, and in all directions and gradually readjust the input mix of government and credit funds and increase the share of input in the livestock industry. We must make corresponding increases in discounted loans to support the development of hog production. Loans to the livestock industry as a percentage of all agricultural loans should come to 20-30 percent in the pastoral areas, 15-20 percent in the semi-pastoral areas, and 10-15 percent in the farm belts and special loans should be earmarked for special use.

Heilongjiang will set up a livestock industry development fund system. All cities, counties, and state farms and pastures should allocate five cents or more per mu from the land conservation fund and designate that money as livestock industry development fund. Cities and counties where the livestock industry plays a fairly important role and state farms may also divert part of their livestock and animal product management funds to be used to develop the livestock industry. How and how much of the funds should be taken out should be left to each city and county to decide. As for the agricultural development fund, the localities should make appropriate arrangements depending on what the development of the local livestock industry needs.

Fees for hog slaughtering, pasture management, technical improvements with regard to wool, and hog and poultry disease prevention must be collected diligently as stipulated in the original policy, and special funds must be put to special use. Unauthorized retention and use are strictly prohibited.

Heilongjiang will strive to win state funds and bring in foreign capital. We must do careful feasibility studies of state-funded projects to make sure that we have the matching funds. Localities must create a proper investment environment, and via compensatory trade or by setting up jointly-managed plants (farms) and so on, we can attract funds from other provinces and from foreign countries. Large and mid-sized industrial and mining enterprises and institutions are encouraged to link up with the production regions to set up livestock product production bases. They should develop those bases together and share the profit.

Heilongjiang encourages peasants to use their own funds to set up animal and poultry farms or get together to set up jointly-managed animal feed processing plants. Village-level collectives should also take out some of their accumulation funds and spend it on the livestock industry's infrastructure.

6. Heilongjiang will make full use of its forage resources and speed up the construction of its feed processing industry and strengthen the management of its forage business. With respect to coarse fodder, we should perfect several forms of pasture contracting, strengthen the management and development of pastures, and prohibit unauthorized pasture development. For grassland in western Heilongjiang, the emphasis will be on improvement and construction to increase forage grass production and grassland utilization rate. As for the grassland to the northeast, the emphasis will be on development, tapping potential resources, and increasing animal-rearing capacity. The vast agricultural region provides a rich supply of straw. We should actively promote such techniques as silage and ammoniation, saccharification, and salinization of straw to increase the roughage utilization rate. We should also gradually increase the amount of land devoted to feed production and strive to increase the share of forage land to five percent of the total cultivated area by 1995. In localities with the right conditions, we advocate intercropping and rotation of grain and grass crops.

With respect to concentrated feed, we should put under centralized planning the sideline products which are a part of the state's fixed quota grain purchase and guarantee supply for the large and mid-sized cities and key feed processing enterprises. If they have completed the state's fixed quota purchase tasks, the feed processing enterprises should be allowed to purchase their own raw materials or ask the grain department and the supply and marketing department to make those purchases on their behalf. Enterprises should supply their own necessary funds, and the Agricultural Bank and the credit cooperatives should also lend their support. As for the supply of

rice and wheat dregs, the province's own livestock industry's needs should be taken care of first.

The feed industry should be included in the comprehensive national economic development program for centralized planning and proper distribution to form a processing system where there is a proper mix of large, mid-sized, and small enterprises and where urban and rural developments can be coordinated. The province will focus mainly on the production of protein, amino acid, vitamin, trace elements and other raw materials. It is also responsible for making scientific studies of processing machinery and equipment and different feed formulas. Cities and counties should concentrate on production and supply of compound feed and feed concentrates. Villages should focus on setting up small feed processing plants and work on grinding, processing, and supplying feed. Grain and livestock departments and town and township peasant households may set up their own feed processing enterprises, either individually or jointly through stock participation.

The technical supervision, livestock, feed and other departments must step up feed inspection and improve feed quality management. Plants that do not prepare their feed according to standard formulas and sales units that sell substandard products should be penalized, and those who have caused damages will be held legally responsible.

7. Heilongjiang will actively and steadily promote restructuring of the livestock administration and management system. All cities and counties should follow the production-processing-sales integration principle to gradually smooth out the relationship among production, processing, and sales and other departments and links and form a complete set of well-coordinated, highly-commercialized livestock product production bases and enterprise groups. Within the animal husbandry system, cities and counties must separate government and business and set up some livestock and veterinarian technical service centers. Township livestock stations, breeding stations, pasture stations, and veterinarian hospitals should be merged into one and become comprehensive livestock and veterinarian service stations. The village level should focus on building livestock and veterinarian teams to increase comprehensive service capability.

8. Heilongjiang will provide stronger leadership in livestock production. Governments at all levels must firmly establish a great agriculture concept which combines agriculture and animal husbandry. They should designate one leading comrade who specializes in managing the livestock industry. They must analyze and study livestock production issues regularly, tackle the practical production problems promptly, and promote the in-depth development of the livestock economy while restructuring the system. They must augment and strengthen their leadership role, as well as the functional organs' role, in animal husbandry work and take local conditions into consideration as they organize relevant

departments to formulate developmental programs and make sure that the livestock industry's developmental goals are fulfilled.

Livestock departments at all levels must give full play to functional departments, and relevant departments must work closely together and promptly solve problems encountered in the construction and reform of the livestock industry.

### **Commentator Calls for Increased Agricultural Investment**

91CE0395A Beijing JINGJI RIBAO in Chinese  
25 Feb 91 p 1

[Commentator Article: "Increase Agricultural Investments In All Fields"]

[Text] Continuing to increase agricultural investment in all fields and constantly raising comprehensive production capacity remain a key to maintaining the promising trend of agricultural development and bringing about long-term, sustained, stable, and coordinated development in agricultural production.

Agriculture is a sector of material production. As the scale of output continues to increase, whether or not more investment can be added has become an important factor in further developing the potential of agricultural production. Currently the investment of agricultural reproduction comes mainly from four sectors: central revenue, local government revenues, rural collective economy, and individual peasants. The investments of these sectors are different in their emphasis and functions, so they are not interchangeable. Agricultural investment financed with central revenue is used mainly to harness rivers and lakes, build large-scale water conservancy projects and large-scale agricultural commodity bases, and to carry out comprehensive agricultural area development projects. Local governments at all levels are the main investor of large agricultural engineering projects in areas under their jurisdiction. They are the key link in the implementation of the investment policy and have responsibility for regional agricultural construction. Rural collective economic organizations and peasant households, who are agricultural production managers, are the main source of direct investment in agricultural production and management. Practice has proven that it is not appropriate to ignore or overemphasize any one of these four main sources. When increasing agricultural investment, we should make sure that the four wheels are turning at the same time and strive to increase comprehensive agricultural production capacity.

In recent years the state has attached great importance to the issue of agricultural investment. Under the situation of fund shortages, the state increased agricultural investment by 1 billion yuan in 1990 and plans to continue to increase agricultural investment in 1991 to increase the ratio of agriculture in the state economic reproduction investment. Local governments at all levels have also

increased through various channels and methods agricultural investment, enabling agricultural investment to have a good beginning of continuous increase after a period of stagnation. We should continue to maintain this promising trend. While original departmental investment structure cannot be changed easily, local treasuries at all levels should reduce price subsidies by increasing industrial economic efficiency, invest more funds in the construction of economic reproduction, further strengthen agriculture in regard to the increase of investment, and enable agricultural investment to reach and maintain a level proved to be rational by production reality.

Practice has proven that rural collective economic organizations remain an operational level of managerial nature in the "dual-level operational" system of rural areas. They have played an indispensable role in increasing investment, improving production and operation conditions, and developing agricultural production. In areas where rural collective and township enterprises are relatively developed, we should take advantage of the opportunity of "the year of quality, variety, and efficiency" to continue enterprise reform, accelerate scientific and technological progress and technological transformation, further improve production quality and economic returns, and perfect administrative and management system and enterprise accumulation mechanism. We should use still greater economic strength to continue to help township enterprises to do a good job in "supplementing agriculture with industry" and "building agriculture with industry." Within the scope permitted by policies, the vast number of rural collective economic organizations should do a good job in the profit retention of contracts and use as much profits as possible along with other collective incomes for the investment of agricultural reproduction. They should also take advantage of abundant rural labor resources to organize the accumulation of animated labor for agricultural construction, and gradually standardize and institutionalize such procedures.

Individual peasants' investment ability and their enthusiasm for production investment are a critical link that determines whether or not investment can achieve desired effect. In the past two years, peasants' economic returns appeared to be out of line with the overall substantial increase of agricultural products. In some areas agricultural products were stockpiled and prices dropped. As a result, it is difficult to turn material income into reproduction investment, thus affecting peasants' investment ability and their enthusiasm for expanding reproduction investment. To change this situation, first we should continue price reform to smooth out the pricing system and enable peasants to get a reasonable reward for their production investment when compared to other industries. Second we should reform the circulating system to enliven the circulation of agricultural products. While speeding up the construction of "main channels," we should persist in more channels and fewer links, try to have producers meet directly with

sellers, let peasants take part in circulation, and join efforts to solve the problem of difficulty in buying and selling in rural areas and bring about a benign cycle of value and high efficiency. Third we should support peasants in developing nonagricultural undertakings based on the processing of agricultural products. In the future the processing capacity of agricultural products should be distributed as much as possible to raw material producing areas so as to let the peasants and rural areas enjoy the added value of agricultural products and the profits of processing. This is a practical solution to the problem of low comparative profits of agricultural production. It can arouse peasants' enthusiasm for production and increase their ability to accumulate profits and make investment.

"Cooperative efforts make bigger flame." As long as all fields can continue to increase agricultural investment, comprehensive agricultural production capacity will pick up substantially in the near future and a solid material foundation will be laid for realizing the goal of agricultural development.

#### Hubei Farmers Experience Problems Obtaining Fuel

91CE0423A Beijing JINGJI RIBAO in Chinese  
9 Mar 91 p 1

[Article by Ouyang Zhixiu (2962 7122 3112 0208): "Stop the Leakage of Agricultural Supplies"]

[Text] In some areas of Hubei "leaks" exist in the work of departments and units that have responsibility for management, supply and planned distribution of state diesel fuel for farm use. A substantial part of the advantage of state priced diesel fuel the state distributes to farmers is missing.

Information this reporter obtained from departments concerned shows that in Hubei, except for grain and cotton linked diesel oil rations supplied to rural households, annually the state planned distribution and temporarily increased allocations to help during natural disasters are about 380,000 tons. The advantage to peasants of state and negotiated price difference is nearly 200 million yuan. However, the chaotic "flight, fraud, trickling and leakage" in allocation, supply and management in some local areas has created losses for some peasants.

Leakage one: Departments compete to take part in distribution. For example, among nine counties (cities) in one area, the finance, planning, farm machinery, cotton, and grain departments participate in planned distribution of diesel fuel for farm use. In addition to the above departments, in some counties (cities) the agricultural commission, people's government, water conservancy, and united front departments participate in distribution. This resulted in many units distributing many times, large-scale "authorized" [daimao 2071 1604] arrangements, "not enough to go around," and chaotic management. "Authorized" supply units include rural



and township governments and enterprises, both agricultural and nonagricultural. Oil companies everywhere constantly dealt with eight or nine supply firms, they were at a loss as to what to do, in an awkward situation, and more importantly this caused mistaken losses of diesel oil for farm use.

**Leakage two:** Layer upon layer of reserve wholesale supply adds considerable pressure. In current distribution of diesel fuel for farm use, county (city) and rural (township) levels have larger reserves. A few leaders and some departments have confused wholesale categories and assign reserves to nonagricultural households and enterprises. Some farm machine stations even sell these reserves at negotiated prices in their own departments. In addition, some county farm machine departments have clearly stipulated: each tractor will be awarded 50 kg of state priced diesel fuel annually, to be drawn from diesel fuel for farm use. Based on a survey of some counties (cities), annually at least 10 percent of diesel fuel for farm use is so squeezed.

**Leakage three:** Prices are raised on the pretext of collecting fees and levied on peasants. Some county (city) farm machinery departments allocate diesel fuel for farm use supply certificates, and collect farm machinery management service fees. Town (township) governments stipulate that after issuing oil certificates collect funds to subsidize agriculture and a multitude of other fees, with the highest amount collected reaching 470 yuan per ton greatly raising the state price of oil. Some counties (cities) and towns (townships) supply fuel to tractor specialized households based on horsepower, but this oil is mostly used to earn money in transporting goods. When peasants rent tractors to use in the fields they have to buy their own diesel fuel, or pay for fuel at the negotiated price. The individual tractor driver benefits, but the agricultural household suffers.

The Central Government demands that we strengthen the agricultural foundation, and carry out policies that "lean towards agriculture." Peasants call for "leaks" to stop, and further improve and correct their criticisms of distribution, supply and management of diesel fuel for farm use. This should arouse the serious concern of leadership and government at all levels so that diesel fuel for farm use is used for agricultural production in line with stipulations, ensure the need for fuel used in such areas as field work, grain ration processing, agricultural sideline products transport, and capital construction of farmland.

### **Anhui Investigates Management of Hog Markets**

91CE0494A Hefei ANHUI RIBAO in Chinese  
13 Mar 91 p 3

[Article by Research Section, Anhui Provincial Government Office: "Investigation of Management Methods in Anhui's Hog Market: Prices Stable, Procurement, Sales Brisk"]

[Text] In 1987 the Office of the State Council issued a document on trial hog market management methods: "designate locations for slaughtering, centralize inspections, unify tax payments, and decentralize management." By the end of 1990, some 21 counties (cities) in Anhui had made an overall readjustment of the hog market and implemented an "18 point" management method. At present, another 17 counties (cities) are preparing to do the same. Wherever the "18 point" plan has been fully implemented, hog market prices have been stable, procurement and sales brisk, and noteworthy social and economic results obtained.

Consumer interests have been protected by putting an end to the marketing of infected and water-filled pork. According to incomplete data from 21 counties (cities) that have implemented the plan, of the 220,000 hogs which were slaughtered between May and October 1990, none were found to be infected after inspection. In the latter half of 1990, Feidong County found 68 infected hogs, 16 dead hogs, and 10 sows. In a 50 day period, Dingyuan County found 11 infected hogs. The masses have less worries because pork is not allowed on the market until the slaughtering houses (sites) have stamped their standard of approval on it.

State tax revenues have increased greatly by plugging tax loopholes. In a 50 day period, Dingyuan County levied more than 340,000 yuan in taxes, which was more than the annual tax revenue for the two previous years. It also levied 76,000 yuan in industrial and commercial taxes, an amount five times greater than the same period one year earlier. In six months of readjusting the hog market, Feidong County levied 1.01 million in taxes, 3.7 times greater than in the same period of the previous year. It earned 340,000 yuan in industrial and commercial taxes, much higher than in the same period of the previous year. This proves that in the past individual butchers went without paying taxes and tax loopholes were quite prevalent. It is estimated that if Anhui extends this method, annual tax revenues will increase by over 50 million yuan. At the same time, it will also promote honest and clean government by tax management departments. A director of a county bureau said, "Several dozen honest and clean government measures are not as good as this one; it fundamentally solves the problem."

Order has been brought to the hog market for the time being, major and minor channels both play their role. There are fewer chaotic phenomenon such as uncertified, illegal practices, killing hogs any old place, jacking up prices, and deception. The market is moving in the direction of an orderly revival. The state and individuals use certification. Prices are clearly marked, stamps are issued for tax payment, and there is a tentative start toward standardized business practices. The many-channelled market is moving in the healthy direction of equal competition with coordinated development. There is a noticeable rise in the percentage of hog operations by state-run food product departments. The function of major state-run channels has had a certain revival. There

has been a turn-around in the phenomena of idle workers on the job, and workers who have left their jobs or are retired demanding food from the county government.

This has been beneficial to develop hog production and protect peasants' enthusiasm for raising hogs. Slaughtering at designated locations and centralized inspection effectively prevent the transmission and spread of disease among hogs and protect the breeding of sows. There has also been a certain curtailment of tipping scales and reducing grades and prices in the sale of hogs to exploit peasants.

During our investigation we also discovered that a small number of places implementing the "18 point" plan are different from what was expected; they did not deregulate purchases and sales. Food departments in some areas have not changed; they revived monopolized operations. Other areas implemented regional blockades. Although these problems have been or are being corrected, they have given many people the wrong impression of the "18 point" plan. Thus, we propose:

1. Uniform understanding. In particular, leading cadres at all levels in all departments must be guided by the spirit of the Party's 7th Central Committee plenary session, in constructing and developing a socialist, planned commodity economy with Chinese characteristics, and setting up a corresponding planned economy with a high degree of market regulating mechanisms. To understand this issue, we must eliminate interference and influence driven by various interests. These practices can become common and steadfast only if all parties fully cooperate.

2. We should steadfastly correct practices that are out of line with the "18 point" business plan. The core of "slaughtering at designated locations, centralized inspections, unified tax payment, and dispersed business" is the word "designated." Its essence is the word "business," not the word "unified." The core of management is to deregulate procurement and sales, not to assign quotas and purchases. Thus, to avoid misunderstandings, it is unsuitable to call the "18 point" plan "three unifieds and one separate" or "four unifieds and one separate." Commercial state-run food departments should become more self-reliant, improve the quality of service, and develop the role of main channels.

3. We must earnestly sum up and spread the "18 point" plan everywhere. We must sum up experiences and promote the methods used by counties (such as Feidong) that have had relatively good results in promoting the plan so as to spread it throughout all major hog-producing regions of Hefei first. The plan temporarily may not be implemented in remote mountainous areas where transport is inconvenient. Provided that hogs slaughtered by peasants themselves for personal consumption do not come on the market, they need not be sent to the designated locations for slaughtering. The county, region, or village government still is responsible for implementing the plan. Departments concerned

should select personnel to visit the various levels of established market business committees. In particular, they must be responsible for enhancing market management over hogs and other sideline food products, and timely coordination to solve problems that arise. However, considered from the long term, this work gradually should be made a normal, regular and systematic task of departments of industry and commerce, taxation, public security, commerce, and agriculture and animal husbandry. The province, cities, and counties should appoint a leading comrade in charge of this task to enhance leadership over it. Slaughtering locations should be in market towns accessible to transport. Space, equipment, and personnel of food product stations must be fully used. Where conditions permit, comprehensive animal husbandry stations may be determined as designated slaughtering locations. Specifically, according to their needs and capabilities, various counties (cities) must try their very best to determine designated slaughtering locations based upon convenience. Those in the business must enter the sites for slaughtering and processing. After admission to a site, disease inspections should be carried out according to State Council document number 34 (1989). However, all expenses for slaughtering, inspection, and tax payment ought to be paid together at the designated slaughtering location. The county (city) people's government must determine reasonable amounts and standards for expenses based on the relevant regulations. It also must publicize weights and measures, enhance supervision, control arbitrary fee charges, and random apportionment. After implementing this plan, each county (city) shall subtract a certain proportion of the excess taxes collected, taking 1989 as a base year; one portion of this will be used to support and develop hog-raising, and another portion to enhance business on the hog market as well as for facilities and equipment needed by the designated slaughtering sites. County fiscal governments should collect funds for specialized households to manage and use.

### Heilongjiang Peasant Burdens Increased in 1990

91CE0498B Beijing ZHONGGUO TONGJI XINXI  
BAO in Chinese 25 Mar 91 p 1

[Article by Hou Yuhuan (0186 3768 3883): "Legislative Action Has Failed: Heilongjiang Peasant Burdens Still Average Almost 100 Yuan"]

[Text] Despite legislative action taken by the Heilongjiang Provincial People's Congress and government to lighten peasant burdens, Heilongjiang peasant burdens are still increasing. A survey shows that Heilongjiang peasant burdens averaged 95.26 yuan in 1990, a 26.5 percent increase over 1989, which was higher than the 1990 average increase in net income.

A sampling of Heilongjiang's 28 cities and counties and 224 villages found that peasant burdens increased in 1990 in the areas of taxes, collective deductions, overall planning funds, and various charges and fines. Because

peasant burdens increased at a faster rate than average net income. peasant burdens accounted for 14.2 percent of per capita net income. Excluding legal farm taxes, the three burdens of collective deductions, overall planning funds, and other charges and fines alone amounted to 13 percent of peasant per capita net income in 1989. Per capita collective deductions and overall planning fees amounted to 53.55 yuan, or 10 percent of per capita net income in 1989. According to relevant State Council regulations on reducing peasant burdens, per capita collective deductions and overall planning funds make peasant burdens 26.79 yuan higher than they should be. The approximately 470 million yuan that peasants throughout Heilongjiang are burdened with, in addition to other charges, means that Heilongjiang peasant burdens exceed 1.23 billion yuan.

According to a survey, the increased 27 percent tax burden was due to the 1990 bumper harvest, and less tax reductions and exemptions for natural disasters. However, the increases in other peasant burdens were due to many irregular factors, such as increases in food, drink, and entertainment expenses in rural villages. The average food, drink, and entertainment expense was 3714.42 yuan per village in 1990, an increase of 580.19 yuan, or 18.5 percent over 1989, and the per capita burden from food, drink, and entertainment costs increased from 1.89 yuan in 1989 to 2.41 yuan in 1990, or a 27.5 percent increase.

Another reason for increased peasant burdens is the unstoppable phenomenon of excessive fee collections. In recent years, the party and government have given repeated injunctions against excessive fee collections from peasants by all departments. But bumper harvests have led to a reoccurrence of asking peasants for help. Of the various charges and fines making up peasant burdens in 1990, except for a 15.3 percent decrease in fines for not fulfilling grain and hog quotas, all other charges and fines increased sharply over 1989. Except for overall planning funds, various payments to towns and townships averaged 2.73 yuan, a 120 percent increase, and except for village deductions, various other charges averaged 1.76 yuan, a 140 percent increase.

While the number of village managers has decreased, their wages have increased. Wages of village managers increased 4.2 percent faster than peasant income.

It is understood that the Heilongjiang Provincial People's Congress passed the "Heilongjiang Province Peasant Burden Control Regulations" on 22 July 1989, and in 1990 the provincial government released the "Heilongjiang Peasant Burden Items and Standards," but in 1990 Heilongjiang peasant burdens still exceeded these regulations and standards by 25.2 percent, 37 percent for welfare funds, and 69.8 percent for administrative costs in 1990.

### **Long-Term Agricultural Loans Needed To Develop Production**

91CE0498A Beijing JINRONG SHIBAO in Chinese  
1 Apr 91 p 3

[Article by Chang Naiqin (1603 0035 0530): "China's Percentage of Medium- and Long-Term Agricultural Loans Should Be Increased Steadily"]

### **[Text] I. China's Current Low Percentage of Medium- and Long-Term Loans Limits Agricultural Production Development**

The Agricultural Bank of China (ABC) planned to increase agricultural loans by 9.2 billion yuan in 1989 to enhance the agricultural foundation and realize the policy of slanting credit funds toward agriculture, but by the end of 1989 the ABC actually loaned out only 6.5 million yuan, or 70 percent of the planned increase. In 1990 the ABC planned to increase agricultural loans by 10 billion yuan, but it actually loaned out only 9.2 billion yuan by the end of November. Industrial and commercial loans increased 27 percent more than agricultural loans. Planned agricultural loan increases for 1989 and 1990 were not fulfilled. Although agricultural loans in 1991 have increased over 1989, this has not basically solved the agricultural loan problem, and agricultural loans are in a state of stagnation.

By the end of November 1990, agricultural banks had 55.8 billion yuan in outstanding loans, of which about 20 percent were medium- and long-term, a too low proportion. Loans that have been used mostly for routine annual agricultural production costs over the last four decades, are no longer able to meet the needs of modern agricultural production development. Contemporary agricultural production development has a pressing need for medium- and long-term loans that enhance and increase agricultural infrastructure in such areas as, building basic agricultural facilities, farmland capital construction, irrigation projects, farm machinery, agricultural development, and agricultural S&T. Because of agricultural loan shortages and various other factors, agricultural production development is greatly limited.

### **II. Factors That Limit Medium- and Long-Term Loans**

A. The short-term nature of agricultural production activity has cooled agricultural investment initiative. After implementing contracts the scale of land management became smaller and more decentralized, and peasants have felt less responsible for land use rights and have pillaged the land. Peasants are more interested in low-investment, high-profit industrial sidelines than in investing in projects with medium- and long-term profits, such as farmland capital construction, irrigation projects, farm machinery, and resource development.

B. Medium- and long-term loans bring lower profits. Because the risks are higher and profit margins lower,



most loans flow to industry, commerce, and high-profit industries, but investment in long- and short-term loans is not increased.

C. There are no guarantees for medium- and long-term loans. According to current agricultural credit plans and fund separation, even though planned credit tasks are assigned every year, basic-level banks and cooperatives are always short of funds. Lured into a pattern of making the best investment, they repress agricultural loans, guarantee savings payments, agricultural and sideline product procurement, and high-profit agricultural production projects, which often puts the squeeze on medium- and long-term loans.

D. Financial operations are short-term. Since the contract management responsibility system was introduced to banks, profits have become their major operating objective. Agricultural banks and credit cooperatives usually choose short-term loans over medium- and long-term ones, production cost loans over equipment loans, and high-profit industrial loans over low-profit ones.

E. "Across-the-board" monetary policies also limit medium- and long-term agricultural loans.

F. Interest rates policies limit medium- and long-term loans. Because agricultural loans have high interest rates and low profit margins, and, in particular, savings and loan interest rates being out of line with each other after loan interest rates were readjusted, agricultural banks and credit cooperatives have so many losses that it is hard for them to continue operating and they are unable to increase medium- and long-term investment.

### III. Experiences of Economically Developed Countries in Medium- and Long-Term Investment and Preferential Protection Policies

The considerable attention that governments of economically developed countries have paid to medium- and long-term agricultural investment and preferential protection policy, has played an important role in the combined use of production factors to promote and achieve agricultural modernization.

A. Granting preferential medium- and long-term agricultural loans. 1. They increased their percentage of medium- and long-term loans to meet agricultural development needs for building irrigation projects, leveling land, and buying farm machinery. The Japanese government allocates special funds from its revenue each year to provide low-interest agricultural loans with maximum maturity periods of 30 years. In 1977, 70 percent of such loans were medium- and long-term ones. 2. They grant low-interest preferential loans. The French Agricultural Credit Bank began to grant agricultural discount loans to farmers in the late 50s at only one-half the interest rates of commercial banks for buying land, housing, processing agricultural sideline products, etc.

B. They grant subsidies to farmers to build rural capital construction projects such as irrigation projects, roads, electrification, and land management.

C. They subsidize capital goods purchases by farmers with tax-exemptions and allowances. Statistics show that during its Second Modernization and Equipment Plan from 1954 to 1957, France provided an average of 89 billion francs a year in tax-exemptions and subsidies for agricultural capital goods.

D. They implement price protection policies for agricultural products. Along with increasing specialization, mechanization, and socialization of agricultural production, more and more agricultural products are turned into commodities. To balance agricultural product supply and demand, and stabilize farmers' investment initiative under these conditions, various governments implement price protection policies, such as half-price subsidies, set target prices, and subsidized prices.

In summary, most developed countries invest in medium- and long-term farm mechanization and construction of other agricultural production facilities, and only a little goes to meet production needs. This kind of investment orientation mainly solves the problems of deteriorating conditions that confront agricultural production, backward production methods, and low production efficiency. Moreover, it meets pressing agricultural production development needs in the areas of farm machinery, power, and basic facilities, and enhances agricultural infrastructure.

### IV. Suggestions for Increasing Effective Medium- and Long-Term Loan Investment

A. A stable rural economic policy is the basis for increasing medium- and long-term agricultural loans. Supporting and perfecting the dual management system to stabilize long-range land management by peasant households, will enable peasants to realize immediate material benefits and look forward to long-range profits, thus stimulating land utilization and sustained investment initiative.

Increased agricultural investment will require adhering to the principle of focusing on peasants and collectives, giving priority to finance and responsible departments at all levels, and effectively using bank loans for diversified and multipurpose development. Collective investment must be used mostly for basic facilities, which are of common benefit. Banks should support projects with low investment, quick results, good efficiency, and timely repayment capability.

B. Increasing the percentage of medium- and long-term loans is the basic way to solve agricultural loan stagnation and agricultural infrastructure problems. The Central Bank should provide special planning and funding for medium- and long-term loans by agricultural banks and credit cooperatives. Medium- and long-term agricultural loans should be gradually increased from the current approximately 20 percent to more than 50 percent.

and they should be included in national credit plan. We must clarify the percentage of planned annual medium- and long-term loans in national agricultural credit planning. Of the funds needed for medium- and long-term loans, agricultural banks should provide 50 percent, and the Central Bank should loan 50 percent for a fixed number of years and at low interest rates based on their medium- and long-term loan structures.

C. The key to increasing agricultural investment is lowering interest rates on medium- and long-term loans. We should rescind the stipulation that puts higher interest rates on longer maturity periods, in line with China's agricultural conditions and peasant capability. We should practice a policy of setting medium- and long-term loan interest rates a grade lower than standard interest rates, with the disparity being subsidized by public finance or the Central Bank. Agricultural banks and credit cooperatives should follow the principle of making tiny profits without losses, and provide consumers with low-interest loans based on efficiency to lighten peasant burdens and arouse peasant initiative for increased investment.

D. The basis for increasing medium- and long-term loans is implementing a preferential encouragement policy for fund management by rural financial institutions such as agricultural banks and credit cooperatives. When planning rural financial institutions profit turn over to higher authorities, finance departments should allow those whose income decreased because of increased agricultural loans to retain a correspondingly higher percentage of profits. And change specialized bank practice of setting a centrally-set percentage of credit funds regardless of profits, appropriately increase the percentage of credit funds collected by agricultural banks, and practice a policy of setting lower interest rates for agricultural loans than for industrial and commercial loans and lower interest rates for medium- and long-term loans than for agricultural ones.

#### Food Industry Needs To Improve Technology, Focus on Nutrition

From *FOCUS* Beijing JINGJI RIBAO in Chinese  
7/1 May 1991

Article by Li Wenji (2621 2429 1015) "Perspective on Food Production and Food Consumption"

[Text] China is a major meat producing country. It is a country of meat product processing, its variety, volume, flavor and special flavor may well be the largest. However, with the development of time and science and technology, China's meat products industry now is still backward.

[Text] There are few processed meat products. The people in developed countries there are almost no meat products in markets, but in Beijing the meat products sold in markets is mainly carcasses. Cooked and processed meat products make up more than 50 percent of

meat products in developed countries, but in Beijing they are less than 10 percent.

Again, in terms of processing techniques for traditional meat products, whether southern style, northern style, marinated, cooked in soy sauce, barbecued, roasted, boiled, or deep-fried, production is for the most part at the primitive developmental stage of the handicraft shop. Production takes a long time, techniques are backward, equipment is old, the work environment and sanitary conditions are poor. Two thousand years ago it was one big pot, today it is still one big pot. It is truly difficult to develop large scale industrialized production and this limits severely the growth of China's meat products industry.

Since reform and opening up to the world, China's meat industry has begun to import advanced equipment. Up to now, nearly 100 enterprises have spent over \$40 million to import sausage and Western style ham production lines and individual pieces of equipment and have begun to produce over 100 Western style products, including German, French and Italian. However, due to the influence of the market, consumption level, flavor, and eating habits, most consumers still like Chinese products. Although there is a market for Western-style products, Chinese-style products often outsell Western-style products. Currently, except for Beijing, Tianjin and Shanghai, most equipment imported by companies is semi-shutdown or idle, quality, variety, and output do not reach planned capacity, processing technology is still in the absorption stage, and most economic returns are not ideal, even to the point of being a burden on these enterprises.

Nutritionally, China's food habits are unscientific. Malnutrition exists, primarily due to inadequate intake of protein. China's average consumption of animal protein (meat, eggs and milk), primary sources of protein, is far below that of the developed countries. There is also the problem of relative excess of nutrients, i.e., intake of caloric materials exceeds standards. In production of meat products in particular the issue of nutrition has not been raised to a scientific level and made a guiding principle of production so that many of China's limited resources are wasted. In addition, we fall far short of international levels in terms of sanitation, packaging, freshness, storage, shipping and markets.

The meat products industry is underdeveloped and meat consumption needs to be promoted. It seems that now we need to start research on "lessons about meat products." One, in light of domestic demand and consumption habits, change products with Western-style flavor to Western-style products with Chinese flavor to improve acceptability of Western-style products in the domestic market, fully develop Western techniques and industrialized production, increase output and variety and improve quality and market competition ability. Fully develop the capability of imported technology by

[Mikawong, for staff reports] 1. Bangkok (1911) 266-267. Planning and Market for Agricultural Exports—Factors in Export Success. Factors of Success in Exports of Rubber (Kochakorn, Under Planning Committee on Export Securities).



Chen. Since the CPC Congress, our party has drawn a scientific inference, through pooling collective wisdom and practical experience, that a planned commodity economy on the basis of the public ownership is dominant at China's present stage. This serves as a scientific summary of long-term disputes on the issue of planning-market relations. The socialist economy is a unity of the planned and commodity economies, in which the rules of planned development and value jointly play a regulatory role. Planned regulation means that the society can conscientiously arrange social production in proportion, while market regulation refers to the realization of a proportionate development in social production through a market structure. Planned and market regulations are mutually infiltrative and inclusive, that is, planned regulation should be carried out in accordance with market changes, while market regulation cannot do without the guidance and restrictions of planning. Planned and commodity regulations can be integrated in three forms, namely, mandatory plans, guiding plans and market regulation. All the three are based on the economic rule and jointly act on the economic life. The successful experience gained in rural reform over the past 10 years is exactly the fruit of our persistence in taking the road of a planned commodity economy, and in integrating planning with market.

Take the case of Shouguang County, Shandong Province. As a major county of traditional agriculture, the county is an important production base of vegetables, fruits, grain and cotton. With the economic development in recent years, two new social and economic contradictions have cropped up. One is the contradiction between production and circulation. As a result of increases in output and roughness in circulation, peasants have suffered losses incurred by difficulties in selling agricultural products. The other is contradictions between the decentralized management by rural households and the large-scale socialized market. Individual production has a character of arbitrariness and blindness, for peasants are individually isolated and weak in strength, and their risk-resistant capacity is very poor. As a result, the development of a rural commodity economy has always been unstable. Under this new situation, Shouguang County, through organizing rural markets, succeeded in developing the commodity economy and properly handled planning-market relations, thus bringing about a comparatively growth in the rural economy. Reporter: In terms of theory and practice, some people are apt to separate planning from market, as in the former against the latter, interminably and unconditionally. This can be exemplified by the concern of mixing plans and planning with making market commodity, that of sub-ordinating market to planning, and the concept that planning is for the macroeconomy while market the microeconomy. At how can we represent commodity economy?

Chen: Those who hold such concepts are in essence still confining their thinking to the framework of the former planned economy in the past. This does not fail to manifestly comprehend the relation between planning and market under a commodity economy. In fact, planning and market represent different economic relations and

secondary, and it is also incorrect to tell the principal from the subordinate between the two. If we fail to accord ourselves with market demands and information while working out plans, we can neither do a good job in organizing the market, nor work out any effective plans.

The concept that "planning is for the macroeconomy while market, the microeconomy" is also untenable. Generally speaking, the macrolevels of the economy are subjected to more influences and restrictions of planning, while the microlevels are under greater regulation and impact of market. However, in the final analysis, the macro and microlevels of the economy should embody both demands of market and planning. No matter whether it is planning or market, their influence and functions are ubiquitous. Marxist political economics tells us that as a basic rule of the commodity economy, the rule of value gives play to its roles not only on the micro but also on the macrolevels. This serves as a fundamental basis for the perfectly harmonious integration between planning and market within the scope of the entire national economy.

Reporter: Speaking of planning of the economy, some rural grass-roots cadres and peasants will immediately associate it with administrative orders, and then further connect in their minds arbitrary and impracticable orders, thus giving rise to a confused understanding.

Chen: Planning is indispensable, and administrative orders should also exist. What is more, planning, especially mandatory plans, is often achieved through administrative means. However, a confused idea needs to be clarified here: Administrative orders are based exactly on the economic rule, which do not require people to issue blind orders disregarding the economic rule. Therefore, administrative orders do not mean that one can do whatever he likes, and give arbitrary and impracticable orders according to the will of superiors. Some rural grass-roots leaders are prone to have a confused understanding on this issue, assuming that implementation of administrative orders simply means to act according to the will of higher-level leaders without following the guidance of market and economic rules. As a result, some leaders such as financial and money failed to promote the economy by making effective administrative arrangements.

Take the capitalist and the socialist commodity economy, does not undergo a spontaneous development, but follow a planned course on the whole. The Chinese government has decided that the party and government should undertake the responsibility of organizing the market and guiding the development of the commodity economy, and give play to the role of planned guidance as well as macroeconomic control and regulation, through vigorous administrative management. In the past, this view was often comprehended by people from a negative level, and is worried that planned guidance and macroeconomic control and regulation will retard the purpose of providing and reviving confidence and order. Undoubtedly, leaders have the responsibility to

implement planning and management over the commodity economy; however, they should set their eyes on enlivening, rather than exercising too rigid a control over, the economy. This is a basic starting point for us to do a good job of economic work at the present stage.

A good leader should have a profound understanding and perfect mastery of the operating rule of the commodity economy and, on this basis, work out scientific plans and policy decisions in light of local realities. Attention should be paid to both social and market demands, and the present state of natural resources. It is imperative to keep abreast of social and market needs as well as the present state of natural resources, before working out scientific policy decisions and plans. Top priority should be given to the former, while the latter is placed on a secondary position. By so doing, we can manage to refrain not only from working out policy decisions and plans on the basis of subjective assumptions, but also from giving arbitrary and impracticable orders as a result of placing planning above market

### March Food Import Figures Released

HA 1004/1006/91 Beijing CFI Database in English  
10 Apr 91

(Text) Beijing (CEI)—Following is a list showing China's import volume of cereals and oils in March 1991 released by the General Administration of Customs.

Item	Unit	Mar. 1995	Mar. 1996
Computer	no.	855.50R	1,441.845
Wheat	ton	657.925	1,326.975
Soybeans	ton	0	1 <sup>a</sup>
Sugar	ton	145.611	194.11 <sup>a</sup>
Animal feed and fertilizer	ton	3,414	211
Electricity	ton	276	51.971
Other	ton	47,808	76,408

## March Food Export Figures Released

HKU01030979/ *Bowen: EL Database on English*  
1 May 95

[First] Breeding of Life—Following is a list (showing) Hong's export of cereals, oils and food in Mar. 1971, released by the General Administration of Customs.

Item	Year	Star 1991	Star 1992
$\bar{P}_t$	1992	75.00	50.00
$P_{t+1}$	1993	60	30
$\Delta \bar{P}_t$	1992	15.00	20.00
$P_{t+1}$	1993	10.00	10.00
$\Delta \bar{P}_{t+1}$	1993	10.00	20.00
$\Delta \bar{P}_{t+2}$	1994	10.00	10.00
$\Delta \bar{P}_{t+3}$	1995	10.00	10.00

Fish	ton	4 487	4 415
Prawn	ton	7 106	14 598
Cereals	ton	7 306.52	4 701.978
Rice	ton	28 177	33 584
Soybean	ton	38 633	131 341
Pulses	ton	128 561	81 140
Maize	ton	494 896	1 901.009
Vegetables	ton	71 434	61 900
Fruit	ton	8 615	18 564
Orange	ton	5 750	3 381
Apple	ton	693	13 409
Sugar	ton	25 827	64 200
Canned Food	ton	52 410	33 667
Pork	ton	4 969	4 191
Vegetables	ton	30 998	18 917
Fruit	ton	10 834	5 106
Others	ton	5 903	4 836
Vegetable Oil	ton	9 607	25 515
Peanut	ton	68 510	58 51

### Cereals, Oils Imports in First Quarter

HA0705110291 Being CFI Database in File  
7 May 91

[Text] Beijing (UPI)—Following is a list showing China's import volume of cereals and oils in the first quarter of 1991, released by the General Administration of Customs.

Item	Unit	10, 1991	10, 1990
Cashew	Ton	107.11	175.87
Wheat	Ton	129.39	149.51
Soybeans	Ton	70	144
Sugar	Ton	11.48	11.73
Animal fats and lard	Ton	11.81	9.80
Ethanol 95%	Gal	10.84	108.82
Ethanol 100%	Gal	181.88	1,000.00

## Funding Assured for Chemical Fertilizer Firms

<sup>1</sup> *Man. 21*, p. 1.[14] Staff reporter, *Los Angeles Times*.

[Type] The Memory in Program 640 contains up to 255 words (200 actually) with 8,192 bits per word. This means it can store 2,048 bytes.

support their energy saving technical renovation programs, China Chemical Industry News said in its Tuesday issue.

The money indicates the State's determination to update the technology level of the country's some 2,000 small-sized chemical fertilizer factories, it said.

The factories were developed with China's own technology in the late 1950s and the majority of them are still running with outdated technology and consume a large amount of energy each year.

However, they have been playing a very important role in China's drive to increase agricultural harvests over the past three decades.

Last year, those factories produced 56.4 percent of China's total 90.72 million tons of chemical fertilizers, the report said.

But almost all of their products are low-efficient nitrogenous fertilizers.

To change these conditions, the Ministry of Chemical Industry several years ago started a technical renovation

experiment in some factories to turn them from producing low-efficient nitrogenous fertilizer to urea—a high-efficient fertilizer badly needed by farmers.

And the results have proven it a success, it said.

For instance, it said, the Shouguang Chemical Fertilizer Factory in Shandong Province earned 4.98 million yuan (\$957,690) in taxes and profits last year after completion of its technical renovation. Before that, the factory lost a total of 14.20 million yuan (\$2.73 million) over 10 years, it said.

So far, 11 of those factories have turned to producing urea after technical renovation.

Thus, the Ministry of Chemical Industry has decided to vigorously carry out the energy saving and technical updating renovation program in the Eighth Five-Year Plan period (1991-95) in order to raise their efficiency.

Currently, about a quarter of the small-sized chemical fertilizer plants are still losing money due to high stockpiles of low quality products.



### Wang Xingjuan Interviewed on Prostitution Problem

91CM0247A Shanghai MINZHU YU FAZHI  
(DEMOCRACY AND THE LEGAL SYSTEM)  
in Chinese No 138, 12 Jan 91 pp 32-34

[Article by Ma Li (7456 0448): "Don't Let a Historically Ugly Phenomenon Be Revived—An Interview With Wang Xingjuan, Scholar on Women's Issues"]

[Text] The revival of prostitution inevitably makes us worry. It was with this great and heavy concern that we interviewed Comrade Wang Xingjuan (3769 5887 1227), director of the Management Science Research Institute, and an expert on women's issues.

Comrade Wang Xingjuan said that "a voluntary fall is an important characteristic of those presently selling sex." This is the starting point for analyzing the behavior of those who sell sex.

When she looked at the reform of prostitutes in the New China of 1949, Comrade Wang felt that those prostitutes were victims of the old society, and they generated widespread sympathy. At the time, when areas like Beijing and Shanghai were closing brothels, almost all prostitutes had been forced, lured, or sold into their fallen state. In China's ancient classics one can also see that many women from good families fell into the fire, either because of hardships or because they were lured by bad people. They could not help it, and they still dreamed day and night of "rehabilitation." The story of Tenth Maiden Du angrily opening the box of hundred treasures, a tragic love story handed down through the ages, stirs people's emotions to this day.

However, most of today's prostitutes want to be prostitutes, or to put it another way, they have fallen voluntarily. In 1989, when Comrade Wang Xingjuan investigated the criminal motivation of prostitutes at reeducation centers in Guangzhou, she learned that only 1.5 percent were forced into prostitution, while over 60 percent engaged in it for profit or pleasure.

These women clearly knew that prostitution was illegal and explicitly prohibited by the government. They used every scheme and tactic to change their methods and status so as to avoid attacks by law enforcers. They were called telephone girls, coffee girls, masseuses, movie companions, or bar girls. They drifted from parks to inns to guesthouses, looking for opportunities for business. Some even leased taxis and conducted acts of prostitution inside the car. Those who were even lower down the scale sold newspapers, eggs, or maps during the day, and sold flesh at night.

Moral decline has made these flesh peddlers shameless. sisters accompany each other, friends go in groups, husbands even go along with their wives, and mothers go with their daughters to sell sex together. While on the whole, such peddlers or hidden peddlers are in the minority, they carry an extremely bad influence, because

the existence of this kind of repulsive phenomenon is one common measure of whether a society is cultured and healthy or corrupt and degenerate.

There are only sellers when there are buyers. Most customers in the old society belonged to the exploitative class: they were high officials, tycoons, and playboys, or nouveau riche or drifting scoundrels. They worshipped drink, sex, riches, and fashion, and sank into a stupor of eating, drinking, whoring, and gambling. This was epitomized in historical literature by the wanton and carnal Ximen Qing.

Today, part of this degenerate legacy still exists within the customers of prostitution. Looking at their occupations, there are apparently some new characteristics.

Comrade Wang Xingjuan said that from January to November 1988, the Public Security Bureau in a southern district analyzed the customers it had arrested. The results were as follows:

There were 37.3 percent who were chauffeurs, 34.5 percent were professionals, contractors, or single heads of household, 16.1 percent were cadres, and 12.1 percent had no regular employment. Chauffeurs, professionals, contractors, and singles had on the whole benefited from the growing economy after opening up; some were startlingly wealthy upstarts. Freedom of employment and the advantages of time and money were the major conditions that pushed them into their fall. Of course, some were the dregs of society, and some were impressed by certain kinds of thought and did not want to be burdened with a family, and they used prostitutes to satisfy their sexual needs.

What is most astounding are the few cadres who degenerated into being customers. They had weak aspirations and ambitions, and they pursued pleasure, completely ignoring party discipline and the nation's laws. Part of the investigation showed that 7.7 percent of the customers were party cadres, which made one's heart ache.

Comrade Wang Xingjuan said, "Undoubtedly, in the long history of China, there have been social mores commonly acknowledged in the world in which we may take pride. This is the result of emphasizing ideals and moral education. However, in the initial phases of socialism, when there is still a great gap between the affluent and the unaffluent or even poor, purges of the influence of old decadent thinking still remain, and prostitution still has soil in which to spread and grow. In particular, the opening to the outside and the high tide of the commodity economy swept in massive, decadent western bourgeois thought, creating a ripple effect."

Of course money is one major reason that some women sell sex. One part of the investigation clearly showed that 53 percent of women selling sex did so to make money. When people are given opportunities to get rich, prostitution naturally becomes the easiest road to success for women who have low cultural standards, are materially deprived, have weak morals, and yet who are resilient.

and vain. We cannot ignore the fact that 7 percent of prostitutes stated flatly that they engaged in prostitution for pleasure, and the fact that customers buy sex primarily for pleasure.

In recent years, some decadent views of life have mixed with new ideas in people's minds and become corrosive. "Free love" and "sexual pleasure" are one of the most serious types. This kind of pornographic corruption attacked the superior moral tradition of the Chinese people, the more open the district was, the more prominent the problem became. From January to November 1988, in one subdistrict in one of Guangdong's special regions, prostitutes from each of the 23 provinces were arrested. The vast majority were from greater Shanghai, where material living standards were more superior. Beijing, Shanghai, Guangzhou, Shenzhen, and other municipalities have discovered small numbers of female university students, faculty members, and engineers who work as prostitutes. They target mostly those coming from abroad, in committing these acts they lose their personal and national integrity. Their principal motive is to leave the country. At one reeducation center, 5 percent of the prostitutes had tried unsuccessfully to marry a foreigner and leave the country, and then were lured into becoming prostitutes.

Sex has become a kind of commodity thrust upon the marketplace, prostitutes wait for the right price to sell, and then enter into the transaction. The ever growing, limitless desire and declining morals are like a devil enticing group after group of weak-willed women into a quagmire.

China had proudly announced the eradication of venereal disease on the mainland. After the prohibition of prostitution, sexual diseases, which were a byproduct of prostitution, lost their sources and carriers. This was music to the ears of a healthy society. People were no longer plagued by "obscene diseases," and descendants did not have to agonize over the tortuous path of their forebearers. We looked with contempt upon the deterioration of the capitalist world, with its venereal diseases and AIDS.

However, we should squarely face the fact that we do not stand on clean soil now. Suddenly there are many rumors about venereal diseases, and there is an increase in the number of centers that treat sexual diseases, which is unfamiliar to China. While this makes us uneasy and we are unaccustomed to it, we cannot reject this painful reality.

Comrade Wang Xinguan said, "The investigation shows that the rate of disease among prostitutes has reached 72 percent. Some prostitutes have more than one type of disease at the same time." A number of reeducation-through-labor facilities are virtually centers for treating venereal disease.

The serious problem is that, because the laws are still not really adequate and comprehensive, society tends to give the customer a way out, letting him go with just a

fine. Those with the bacteria become disease carriers. When they continue their search for illicit sex, and mix with wives and family, they freely spread the diseases.

We must pay attention to the maturation of pubescent girls. Comrade Wang Xinguan feels that this is the crucial period in a person's life. One misstep in this period can ruin the rest of one's life. Yet reality is bitter. According to an investigation at one town's reeducation-through-labor facility, 68 percent of the prostitutes were between the ages of 16 and 20, the youngest prostitute was only 14.

Comrade Wang Xinguan feels that these girls were most restless during puberty and did not receive proper sex education and guidance. In addition, there were gaps in proper family upbringing and formal education, so some of these children were lured onto a crooked road by their desires for material goods and by bad people. Once they lost their footing, it was very difficult to save them. Some, after stumbling, suffered family and social prejudice, and so "reentered" or "thrice entered" the crooked road. Others simply sank deeper and deeper into the mud, finding it difficult to pull themselves out because their lives were already destroyed.

Comrade Wang Xinguan recommended strengthening sex education for pubescent girls. The education should include sexual physiology, psychology, how venereal diseases are transmitted, contraception, and sexual morals. At the minimum, this will help them overcome their ignorance about sex and reinforce their ability to resist sexual pollution in the environment.

The investigation shows that sexual crimes, prostitution, and those who patronize it are closely linked to the spread of pornographic videos and publications. Such videos and publications, which disseminate decadent, degenerative, and vacuous lifestyles and low-class things, are seriously ideologically corrosive. One must go one step further and start up anti-pornography activities and prohibit the publication, reproduction, and distribution of sexually obscene videos, books, and periodicals. At the same time we must spread and strengthen moral education. The standards for people's moral thoughts must be raised and the power of corrosive bourgeois thinking must be resisted. This is one link in the chain to stop the prostitution phenomenon.

#### Service Center for Returned Students

91CM02464 Hong Kong LIAOW ANG JOU TICHON  
OVERSEAS EDITION in Chinese No. 4 28 Jan 91  
pp 15-16

[Article by Zhou Daping (0719 1129 1627) "A Visit to the China Service Center for Overseas Students"]

[Text] On 14 January 1991, a returned student called on the China Service Center for Overseas Students, an organization under the State Education Commission, and expressed his urgency in looking for a job. He said, "My motherland fostered me for 30 years, and now I

only have 30 years to repay her." The returned student had recently received his doctoral degree in Australia, and he had come to visit because he had heard that the service center advocated a two-way option for jobs for various students returning from overseas study, as well as for units in need of personnel. In recent months hundreds of returned students have received confirmation for jobs for the motherland.

According to relevant statistics, in each of the past two years nearly 1,000 students returned from overseas after obtaining their doctorates. In order to broaden the range of occupations for returned students to a new degree, the Chinese government has in recent years offered freedom of choice for jobs, implemented the movement of talented personnel and rational competition, and executed various tasks connected with the two-way option. For example, it allows returned students to apply for jobs in government organizations, institutes of higher learning, scientific research departments, companies, enterprises, collectively owned units, foreign-invested enterprises, and various units and international organizations that China operates in Hong Kong and Macao. Because of a temporary lack of working conditions in China, some returned students could choose the method of working in China for a period and then working overseas. On the basis of their work requirements, returned students could be sent abroad again to investigate, interview, engage in advanced studies, or participate in cooperative research and international conferences. After their service period is over, they could apply to go abroad at their own expense. Organizations which accepted these returned students would reserve a certain number of higher posts for them.

Assistance in locating jobs for returned students is the important function of the work to help Chinese students studying abroad. At first, the China Service Center for Overseas Students sent numerous letters of introduction to the personnel departments of relevant units needing personnel; the letters indicated returned students' job preferences. They did not receive prompt and appropriate replies. This forced some returned students to run hither and thither, looking for jobs suited to their own professions. This also caused some students studying abroad to wait until units had accepted them before returning to China.

Having more than enough people to meet demand, coupled with great obstructions and blindness, is the main reason that the past service style achieved only half the results with twice the effort. The key point of allowing information about personnel target and demand to flow unobstructedly through channels is to obtain the support and cooperation from various aspects of society. Therefore, the service center readjusted its service style in a timely way and heightened its service efficiency. On the one hand, it obtained from Chinese embassies, consulates information on the job preferences of overseas students who had received doctorates and were preparing to return to China (not including self-supporting students). It also obtained job preferences

information directly from students who had returned and not received job confirmations. Using the newspapers, it quickly relayed this information to domestic units needing personnel. On the other hand, it relayed news about the demand domestic units had for talents who had studied overseas—including what types of majors were needed, qualification levels, and the possible work and living conditions offered—to students studying abroad, using the news media.

In the three short months since November 1990, the readjustment of the aforementioned style of service has received warm attention and a positive response from various sectors of society. There have been letters requesting information about doctoral students from the CPC United Front Work Department, the China People's University, the China Mining University, the No. 201 Institute of Machine-building and Electronics, and the Institute of Automation under the Chinese Academy of Sciences. Zhu Shun, head of the Ministry of Geology and Mineral Resources, specifically asked parties concerned about a returned student—introduced in the newspaper—with a doctorate in geology. The Supreme People's Court telephoned, hoping to engage a returned student who had studied international economic law. Professor Zhou Sheng of the Beijing Aeronautics and Space Institute hoped to have a returned student with a doctorate work in the state laboratory he heads. In a letter, Lu Yongxiang, president of Zhejiang University, expressed his warm welcome for outstanding returned students with doctorates who would devote themselves to teaching scientific research in his school. Their remuneration would be high. The China Science and Technology University, Chengdu Science and Technology University, Xi'an Communications University, Jilin University, Central China University of Science and Engineering, and the Southeast University (formerly the Nanjing Engineering College) all sent in their respective requirements for professional personnel, hoping returned students would work in their units. Sometimes five or six units all vied for one returned doctorate student. Some students who were back visiting their families were very pleased to learn about the expanding job opportunities from the special newspaper columns. They said they would take this news back to students studying abroad, telling them they could find an ideal place to display their prowess by using this smooth job-selection channel.

In much of its work, the service center noticed that some of the units which desperately needed talented personnel were themselves facing many unresolved problems. They could only lament and hope for talented personnel. Several times the service center reported problems of a common nature to the relevant government departments, requesting that they formulate proper policies and adopt effective measures to resolve the difficulties faced by returned students and units needing personnel. To date, some actual problems with assigning returned students have been gradually and properly resolved. The most important points are:



—In order to create conditions in which returned students may compete fairly, after returned students with doctorates decide their unit, and the educational office at the originating Chinese embassy (consulate) makes a recommendation, and the unit accepting the student is appraised and decided, the state allocates subsidizing funds for starting scientific research directly to the units. This guarantees continuity of scientific research for returned students. After returning to China, outstanding, talented students could receive separate subsidies from the "Huo Yingdong Education Fund"; the "Scientific Research Fund for Outstanding Young Teachers in Higher Education"; and scientific research funds from the ministries under which they work, for initial research on projects within their own special field. Outstanding talents could also obtain special assistance through introductions from renowned scientists and after approval from parties concerned. Students who are still studying abroad could submit the scientific research topic they want to work on to the State Natural Sciences Foundation for early appraisal. If permission is granted, they could receive a subsidy as soon as they get back.

—In order to guarantee that returned students will not be separated from their families when they have been guaranteed a job in a certain unit, the personnel department has recently proposed a policy. It states that local governments should be responsible for taking the spouses and children of returned doctoral students with assigned jobs and transferring them to the region in which the students will work.

—Regarding the trouble some units are having with resolving housing problems for returned students, Li Ruihuan, member of the standing committee of the Central Committee's Political Bureau, said, "It is reasonable for overseas students to demand appropriate living quarters when they come back to work. Even a chicken needs a nest!" It was learned that the State Council has decided to build lots of commodity housing in the areas of Beijing where institutes of higher learning and science and technology departments are clustered. Returned students could buy this commodity housing at fixed prices just as local residents can. Relevant departments in the central government have already allocated special funds for this unified solution, and the Beijing municipality will be commissioned to carry out the task. At the same time, the state is considering using financial subsidies to resolve returned students' housing problems.

Various placement services for returned students are beginning to take shape. An information network about the supply and demand for talented personnel has been cautiously and conscientiously formed, the service center acts as a bridge to coordinate various aspects of service in a down-to-earth manner. It was learned that the service center is planning to organize a conference this year in Beijing, aimed at strengthening services for returned students. The center will discuss how to coordinate, properly assign, and rationally utilize returned

students with the various ministries and commissions, and some institutes of higher learning and scientific research departments. Furthermore, the service center plans to expand its contacts to areas overseas where the students are concentrated. By making more contacts with overseas students and making more friends, it will provide direct services for them.

At a 1990 management conference for overseas students from the National Public Health System, Li Tieying, State Council member and director of the State Education Commission, said that management departments at all levels that handle students studying abroad must use service to spur education and management. He said they must strive to work harder for overseas students, and help them resolve problems. By serving them, they should create various conditions to enable the students to contribute to building the motherland.

### VD, AIDS Spreading Widely

91CM0288A Hong Kong MING PAO YUE K  
[MING PAO MONTHLY] in Chinese No 302, Feb 91  
pp 33-35

[Article by Huang Chin (7806 2516): "VD and AIDS China's New Problem"]

[Text] In 1964 the Chinese Government, led by Mao Zedong, announced to the world: Venereal disease (VD) has basically been eliminated in China. Like the pride of the party of a country that claimed it "had neither external nor internal debt," the pride of the CPC in this achievement did not last long. The Chinese Government now "possesses" several tens of billion U.S. dollars in external and internal debt, and, since China opened up to the outside world in 1979, VD has again quietly entered through China's wide-open gates and is spreading throughout the country.

### VD Stages a Comeback

Before 1987, although there were VD cases reported in China, they did not draw the attention of governments at all levels, and thus there were no surveys and statistics. After the beginning of 1987, interchange between China and foreign countries expanded, and reports of cases of various kinds of VD constantly increased. From that time on VD prevention and treatment organizations formally set up by officials, have appeared in China and have compiled statistics on VD.

Data from the Disease Prevention Department of China's Ministry of Public Health shows that, in the 10 years since the late seventies, when the first case of venereal disease was discovered, there have been more than 204,000 cases reported, and they have extended to all provinces, municipalities, and autonomous regions.

According to statistics from "VD monitoring centers" set up by the Disease Prevention Department in 16 key cities in China, the incidence of venereal disease in these cities is 2.1 in 1,000 on average. In some cities it is even

as high as 33.6 in 1,000, which is the high level of the incidence of VD in Western countries. For China as a whole, the incidence of VD in 1989 increased by more than 105 percent as compared with that in 1988. It must not be overlooked that all of the above-mentioned statistics are based on officially controlled data. However, experts estimate that, because of a lack of special organizations to treat VD and because of the widespread psychological attitude of hiding the sickness for fear of treatment, in reality the number of people infected by venereal disease is probably two or three times higher than the number in the official statistics.

### VD Penetrates All Places

The Beijing Skin Disease Prevention and Treatment Research Center, set up in early 1987, was Beijing's first organization for the treatment and prevention of VD. According to its statistics, 427 cases of VD were reported in 1987; this figure rose to 525 in 1988, and in 1989 it exceeded 1,000. The center also estimates that the number of people infected with VD in Beijing, at the very least, is more than 50 percent higher than the recorded figure.

In China's largest city, Shanghai, the first case of acute gonorrhea was discovered in the autumn of 1979, after which the number of people infected with VD increased at an annual rate of 4.2 times. A characteristic of VD in Shanghai Municipality is that the proportion of infected teenagers is constantly rising. This rise is especially evident in teenage disciplinary centers, as well as in work-study schools and other organizations for the reeducation through labor of juvenile delinquents. Among young girls guilty of sex offenses, the proportion infected with VD is as high as 47 percent. When six young girls who had committed sex offenses were given physical examinations on arriving at a work-study school, five were found to be infected with VD. They were only about 15 years old.

In a public speech the director of the Sichuan Skin Disease Institute said that there have appeared two clearly opposite trends in the growth of the two main infectious skin diseases in China: one trend is that leprosy has been brought under control; the other trend is that the incidence of VD is constantly rising. In the Women's Training Academy, set up by the Women's Federation in Chongqing City, Sichuan, of the 370 women taken into the academy—women who were prostitutes or who had been sexually promiscuous—119 were found to be infected with VD, about a third of the total.

In the interior province of Shanxi, which has always been regarded as a fairly "closed" area, a high proportion of women are infected with VD. In the Health Care Institute for Women and Children in Shanxi Province, in 1988 and 1989, of the 2,617 patients in the Women's Outpatient Department, the proportion of them found to be infected with VD was as high as 34 percent, and among them there were not a few girls under 15 years old.

### Why Is the VD Problem Becoming More Serious With Each Passing Day?

The Chinese media blame the VD problem, which is becoming more serious with each passing day, on "bourgeois liberalization." The media maintain that the opening up of China's society to the outside world led to an inundation of "bourgeois ideas" and "bourgeois lifestyles," which caused the appearance in China of prostitution, harlotry, sexual promiscuity, and other phenomena that run counter to socialism, and which caused VD to become rampant.

VD is really caused by prostitution, harlotry, and sexual promiscuity, but it is not necessarily related to the "bourgeoisie." In any society, no matter whether it is capitalist or socialist, these social phenomena exist, with the only difference being whether they are public or not, acknowledged or not.

More than 10 years ago China initiated the policy of reform and opening up to the outside world. Air from the outside world, through this gradually opening crack, slowly blew into China, which had been sealed off for many years. The masses on the Chinese mainland gradually widened their horizons, and they came to understand that outside China's borders there existed a wonderful world unlike China. Out of curiosity and a sense of novelty, they did not distinguish the good from the bad in all the things flowing into China. They took in all of them. A large number of official traders and individual households that had become wealthy, as well as drivers of automobiles who emerged with the development of the economy, "dressing warmly and eating their fill, their thoughts turning to lascivious desire," naturally sought carnal pleasure. A number of women who pursued money and a life of pleasure willingly engaged in business with their "capital," which they exchanged for wealth, honor, and vanity. Growing swiftly in this kind of soil in society, VD staged a comeback in China.

### Countermeasures Taken by Authorities

To deal with this serious social problem, China's Ministry of Public Health established the VD Experts Advisory Committee and set up some VD monitoring network points throughout China. At the same time VD is no longer handled as a closely guarded secret. Over the organizations called "skin disease institutes" the banner directly naming them "VD prevention and treatment centers" has been raised. In Beijing Municipality there are VD prevention and treatment centers in the majority of districts and counties, and six or seven hospitals have opened special VD department outpatient services.

However, the treatment of VD is still inactive and passive. The authorities in Beijing are preparing to invite experts to draw up some laws that will basically solve the problem by dealing vigorous blows to prostitution, harlotry, and other behaviors that transmit VD. It is expected that the Ministry of Public Health will convene

the second session of the VD Experts Advisory Committee, which will emphasize the discussion and formulation of some laws, regulations, and management methods concerning VD and rules for the statistical monitoring of it.

### Invasion of AIDS

While VD was becoming widespread and prevalent in China, another more fearsome sexually transmitted fatal illness—AIDS—quietly slipped into the country. Several years ago the shadow of AIDS enveloped Western countries, and the Chinese people were seemingly unaffected by it. At the most it was only a topic for conversation over a cup of tea or after a meal, because they thought that this fearsome, incurable disease was so far away from China that it seemed to be on another celestial body.

In June 1985 an Argentine with U.S. citizenship who was traveling in China died of an illness in Beijing's Xiehe Hospital. In the report on his death, the doctors for the first time put down in writing the name of the dreaded disease AIDS. This was the first case in history of AIDS being discovered on the Chinese mainland. Its fearful shadow had finally been cast over the land of China. For several years afterward, the constant stream of foreigners entering China were examined, and some were found to be infected with AIDS; as of 1989, a total of 23 foreigners, because they were infected, had been given a deadline to leave the country.

In September 1988, a number of foreign students who had just started their studies at Zhejiang University were given routine physical examinations. A student from Africa had a positive reaction to the AIDS antibody, and the departments concerned became extremely nervous. Beijing sent personnel to reexamine the student, and the result was an unambiguous confirmation that left no room for doubt. The authorities in Hangzhou City immediately tightened their control of the student's activities, notified his country through diplomatic channels, and told him to leave China. However, this African, who was close to death, for the sake of "indulging in pleasures while there was still time," went so far as to lose even the most rudimentary and intuitive knowledge of ethics. In the two or three days before leaving China and returning to his own country, using gold necklaces as a lure, he had sexual contacts with two women. Fortunately China is a country in which everything that happens must be registered and filed. The relevant organization, consulting the "register of visitors" at the dormitories for foreign students studying in China, investigated and found these two Hangzhou women. It promptly sent them to a hospital for examination. Even though the result of the examination was negative, because the incubation period for AIDS can be as long as a dozen years, no expert could say with certainty that they had luckily avoided disaster.

The fate of a male salesclerk in Beijing was even more unfortunate than that of the two Hangzhou women. On

31 October 1989, Cao Qing [2580 1987], deputy director of the Disease Prevention Department in the Ministry of Public Health, appeared on a news hookup program of Beijing Central Television. Solemnly he told 300 million Chinese viewers: The first Chinese residing on the mainland to be infected with AIDS has been discovered. The patient was a male salesclerk in a Beijing shop. Addicted to homosexuality, he caught this fatal disease of the century from a foreign sexual partner. Taking the place of a reporter, the government official broadcast the news that in all probability this was not the only case on the Chinese mainland, and that it showed how much attention the Chinese Government was paying to the matter. From this time on, everyone understood that China was no longer a "pure land" free from AIDS.

Statistics in Western countries show that there is a direct ratio between the incidence of VD and the incidence of AIDS. In recent years the incidence of VD has shot up, providing an ominous signal that AIDS could become prevalent on the Chinese mainland. According to Ministry of Public Health statistics up to the end of 1989, on the Chinese mainland there were 194 reported cases of people infected with AIDS, of which 41 were foreigners and 153 were Chinese. Of the 153 Chinese, 146 were addicted to heroin, and all 146 were discovered in Yunnan.

That is to say, 21 times more persons were infected with AIDS by the injection of heroin into their veins than by sexual contact. This unexpected result means that the campaign "to wipe out pornography," which is being waged to prevent VD, will only be able to have a small effect. Another, more dreaded way to transmit AIDS—taking drugs—has now become the objective that needs to be dealt with even more.

Wanding, Ruili, Luxi, and Longchuan, respectively one town and three counties in western Yunnan that border on Burma, for geographical, nationality, and even historical reasons, have always had close ties to Burma. The "Golden Triangle," a famous drug base, is not far from them, and so drug smuggling is rampant there and drug addicts are numerous. In addition, the educational level is low and hygiene is poor. It is easy for AIDS to be transmitted when drug addicts indiscriminately inject heroin into their bodies.

The discovery of a large number of AIDS cases in Yunnan shocked and drew the serious attention of governments at all levels in China. On one hand, they are strengthening measures to stop and punish drug smuggling in order to control drug addicts and make them give up drugs. On the other hand, they stepped up the monitoring of AIDS so that it would not be transmitted to such an extent that it would become a disaster.

The "AIDS prevention and treatment leading group," already set up in Yunnan Province and for which Vice Governor Cheng Laying [2513 4539 5391] is responsible, has now assigned medical experts in all localities to prevent and treat AIDS. The central government has



allocated 27 million yuan in renminbi to enhance the monitoring of AIDS in Yunnan. In the three years from 1990 to 1992, key examinations of 100,000 persons are to be completed, representing 33 times the amount of work done in this respect in the past. WHO has even expressed its concern about the situation in Yunnan, and has sent experts to provide support and to draw up a three-year medium-term prevention and treatment plan. However, by October 1990 a total of 446 persons in China had been discovered to have had a positive reaction to the AIDS antibody. Of them 68 were foreigners and the remaining 378 were Chinese citizens. And of the 378 persons, 368 had been monitored in Yunnan.

An American AIDS expert, Fu-si [1381 2448], thinks that the disease is not yet a serious problem in China, but that, since one of the ways that AIDS is transmitted is either by the transfusion of blood or the injection of blood products, it is now a task of top priority to examine all blood donors in China for the AIDS virus. Fu-si said that in China the testing for AIDS should not be limited to some of its cities, but should be carried out nationwide. In light of this, the relevant departments in

China have strengthened AIDS prevention and treatment. All provinces, autonomous regions, and municipalities have now begun to monitor the disease. The Ministry of Public Health has set up three laboratories for the authenticating of AIDS as a first step in systematizing its prevention and treatment.

In contrast to the various types of VD, which are relatively controllable, AIDS is the "fatal disease of the century" and the greatest threat to mankind. On 20 January 1988, WHO held in London a conference on AIDS, the declaration of which pointed out that AIDS had become a serious problem for the entire world, and called on the governments and peoples of all countries to make strenuous efforts to deal with it.

#### Concluding Remarks

VD and AIDS are not necessarily in direct proportion to the degree of China's reform and its society's opening up to the outside world. If the relevant quarters in China would regard them as social problems and not "ideological problems," and would do some more effective, actual work on them, I believe this would be more advantageous for the control and for the prevention and treatment of VD and AIDS.

## CENTRAL-SOUTH REGION

### Maintaining Social Order in Daqiao Township

91CM02684 Shanghai SHEHUI [SOCIETY]  
in Chinese No 1, Jan 91 pp 20-21

[Article by the Comprehensive Public Security Management Office of the Shanghai Municipal Public Security: "Daqiao Township's Experience in Protecting Society's Public Security"]

[Text] In recent years public security in Daqiao Township, Pingqian County, Hunan Province, has been stable and good. There have been no crimes or major public security cases. The township is characterized by its economic development, reduced crime rate, and well-maintained public security. The reason the township's social order is so good is due primarily to the strengthening of grassroots party and government organizations. Party and government organizations at both the township and village levels are strong and powerful. They used their role as a political core as well as a fighting force fairly well, and united and led the masses in maintaining social stability.

**I. Continuously improve party members' political quality and fully utilize them as models and vanguards for maintaining public security in society.** In recent years the township party committee emphasized the following items: The first item was to establish a party school using self-raised funds. Every year the township party school provides training on quarterly basis to party members above the level of group leader. Following this training party members in each party branch organization hold study sessions in order to improve their political quality. The second item was to organize the masses to evaluate party branch members each year, and recognize outstanding party branches and party members and cadres at the end of each year. Meanwhile, they severely disciplined party members and cadres who violated laws, and publicly announced the results of the disciplinary actions to the masses. For example, the deputy secretary of Baiping's party branch—who was also the village head—embezzled 150 yuan of public funds. After discovering this, the township immediately organized an audit and took disciplinary action against him. He was ordered to make a public self-criticism before the party branch and mass meetings. His case was reported throughout the township. The third item was to focus on training and recruiting party members, as well as to replenish key cadres at the grassroots level. In the past four years, the township has developed 31 party members, and they have already taken up responsible positions at the village and party branch levels. They have become the vanguard and backbone to every aspect of work.

**II. Sincerely implement various rural policies and try to reduce various unstable elements.** After the production contract responsibility system was carried out in the countryside, disputes readily arose over the rights to forest, pasture, and water resources. Also, there was

fighting because of the contradiction between supply and demand for agricultural production materials. In this situation, the township leadership went to key areas and conducted in-depth, case-by-case research and surveys. They gradually investigated over 18 instances of disputes over rights to forest, pasture, and water resources. They solicited a wide range of public opinion and again clarified the rights according to relevant policies. Thus more than 100 contracts for forest, pasture, and water resources were implemented in the township without a single incident. In order to protect peasants' enthusiasm for grain production, they paid particular attention to implementing policies linking grains, oils, and chemical fertilizers, and also to implementing birth control policies. Before the busy time between the spring planting and the autumn harvest, township cadres contacted grain purchasing and supplying departments, organized supplies of production materials such as chemical fertilizers and pesticides, and arranged deliveries and sales of grain and oil. In this way they reduced peasants' anxieties and ensured that each year 28,280 jin of chemical fertilizer were distributed and over 500,000 jin of grain were sold and delivered throughout the township. While implementing the birth control policy, they gave priority in land adjustment to households in which the husband had come to live with the wife's family. Each village established its own nursing home in order to care for the single elderly. They appropriately adjusted land according to births, deaths, and changes in residence, reducing the phenomenon of people "having no fields to cultivate," and preventing disputes from arising over this. At the same time they paid particular attention to developing rural enterprises and managing surplus rural labor, and tried to reduce the sources of social disturbances. Village cadres checked, examined, and approved young peasants leaving the area to work elsewhere. They controlled such movement without killing it; they gave it direction, so that it would not be an added burden on society.

**III. Organize and expand various propaganda and educational activities, uphold the position socialist ideology has in the countryside, and remove the conditions that lead to crimes.** First the township established 13 night schools, and 159 village groups formed study rooms. Sixty percent of villages in the township organized senior citizen associations composed largely of retired cadres. These associations assisted the villages in disseminating propaganda and education, as well as in guiding students. The whole township established a broadcasting network which reached more than 70 percent of the households. The township achieved a "broadcasting line in the air, a propaganda bulletin on every wall, a newspaper in every household, and a propaganda member in every village group." Second, they established "three teams and two centers" to meet the needs of the growing number of rural youths. The "three teams and two centers" refer to the creation of a theatrical team, a propaganda team, and a marshal arts team in each village, and the establishment of a cultural center and movie theater in the township. Third, they promoted campaigns for the "five

goods" households, "model mothers- and daughters-in-law," and "model peasants." In 1989 the township produced 1,200 "five goods" households, 163 pairs of "model mothers- and daughters-in-law," and 123 "model peasant youths." Fourth, they improved the education and management of the population. They created guidance groups to assist 35 petty thieves and five gamblers. With the guidance, over 80 percent showed improvement. Fifth, they held various mass meetings to report on criminals and criminal activities. During 1989's Spring Festival, gambling and feudal superstition surfaced in some village groups. The township party committee and government immediately held mass meetings to explain the seriousness and danger of gambling and superstition. They called upon the masses to stand firm against gambling and feudal superstition. These measures were effective in curbing gambling and superstitious activities.

**IV. Strengthen the leadership over legal, joint defense, and public security organizations.** The township established a legal institute and a joint defense institute. These institutes are staffed with six full-time professionals who have strong political and professional qualities. Every village, as well as those institutions directly under the township government, formed their own public security associations. The associations have a staff of 67 security personnel who were appointed by the township government and who have specific duties and responsibilities. The staff of these three organizations are under the unified management and direct leadership of the political and legal secretary of the township party committee. They are not usually used for matters unrelated to security. Therefore they give full play to their usefulness, and receive praise from the masses.

**V. Work on building political power at the village level, and fully utilize village-level organizations when controlling society's public security.** First, pay attention to building the village party committee group. Focus on people with upright characters, a sense of justice, rich experiences, strong abilities, who are bold and resolute in their work, and who have prestige among the masses, and select them for village-level leading groups. These people should be realistically compensated for their work in order to keep a stable force. Second, support the responsibility system in which township cadres to go down to the villages and live and eat with the masses. Thus they can understand the masses' situation, be concerned with their pains, and solve their problems in a timely manner. At the same time, township cadres should help establish enforceable village laws and regulations that the masses have requested. Third, seriously implement the village-level responsibility system. The township government evaluates each individual village under a "1,000 point system." The system sets the goals for economic development as well as the tasks for managing public security in a village. Under the system the party branch secretary and the village head handle salaries, and bonuses are handled above the village level. Evaluations are conducted at the end of the year, and

rewards based on the evaluations are given out. In this way, Daqiao township enhanced the management ability of village-level organizations and fully utilized the role of village-level organizations.

### **Maintaining Social Stability in Rural Areas**

91CM02704 Shanghai SHEHUI [SOCIETY]  
in Chinese No 1, 20 Jan 91 pp 22-24

[Article from the General Administration Office of the Public Security Bureau, Hunan Province: "The Effective Route To Stabilizing Rural Social Order"]

[Text] The Taiping Street district is situated along the Hunan-Hubei provincial border. In the entire district there are a total of six towns, 110 villages, 1,167 peasant groups, 21,674 peasant households, and a total of 71,504 people. In recent years, criminal, public security, and civil litigation cases have risen continually. According to a thorough investigation in 1989, the number of people involved in criminal or unlawful conduct equalled about 5.2 percent of the district's total population. There were over 1,700 cases involving civil disputes. Under the new situation of implementing the household contract responsibility system, the household became the basic production unit. However, while the "person in charge" handled household production in many households, there was no conscious acceptance of responsibility for building a household spiritual civilization. Thus there was a great increase in social contradictions. This taxed the great spirit of district and town cadres who worked on such disputes, and weakened cadres' abilities to solve them. Under these circumstances, in early 1990 the district's party committee and public security office began to push the "four heads" responsibility system, so as to strengthen the links between the heads of towns, villages (heads of the village party committee), groups, and households. They fully utilized the "four heads," particularly the role of heads of household in building the two civilizations in villages. This basically enabled public security to be comprehensively administered in rural society and stabilized the entire district's rural politics, society, economy, and the hearts of the people.

### **I. A Basic Method for Enhancing the "Four Heads" Responsibility System**

To enhance the "four heads" responsibility system, there must be qualified "four heads." The "three heads" of towns, villages, and groups were selected by party organizations and democratically elected by the masses; they had good qualities and enjoyed prestige among the masses. Only the numerous heads of households were not so chosen: they were neither elected by household members nor appointed by grassroots organizations. While in most households, production and living naturally created a "person in charge," this person was only in charge of household matters, and generally had no strong sense of responsibility toward society. There were many rural households—such as those with mentally handicapped members, lawbreakers, etc.—that did not



have key household members, or else the qualities of those members were very low. In order to promote the "four heads" responsibility system, their first step was:

#### A. Select a well-qualified head of household

1. Define the standards for a qualified head of household. After discussions among peasant delegates from various towns and villages, village party branches and town and district party committees gradually studied the matter, and established the standards for the "four haves." These are: to have a political mind and a passionate love of the party and socialism, to have a concept of law and discipline, and to obey rules and regulations, to have authority in order to coordinate relationships among household members, and to have managerial ability so one can lead the household in working towards prosperity.

2. Strictly conduct matters according to the selection process. The process was that the household generated a report, the peasant group evaluated it, and the village's party branch and party committee approved it. First, each rural household completed a nomination form for its qualified head of household, filling in the basic information on its nominee, and giving the form to the head of the peasant group. Next, the group head convened a meeting of all peasants in the village over the age of 18 to discuss and evaluate the nominations. Then the village's party branch and party committee examined and considered the list of names from all peasant groups according to the standards of the "four haves," and the village party committee issued qualified head of household certificates all at the same time.

After the peasant groups finished their evaluations and the village committees their deliberations, the district changed a total of 127 nominees. For example, Mr. Tang of Donghuxi Village, east of Taiping Street, took his authority as husband seriously. Although he had a penchant for long periods of idleness, he considered himself the natural head of household when filling out the nomination form. However the peasant group reviewed the matter and chose his wife instead. This moved Mr. Tang greatly, and he told his wife about his determination to cast off his "real man" airs and gain the confidence and understanding of all the neighbors.

3. Determine a proxy to act as head of household. In some families—such as those with mentally handicapped members, those whose adult members had all committed crimes, those with no authoritative person among the key members, or those with orphans or other minority dependents—it was not possible to elect a qualified head of household from among the members. There were 607 peasant households that fit into this category. To help these families obey the law and become prosperous, the various village party branches and party committees—after securing the concurrence of these peasant households—appointed 186 neighbors, 234

friends or relatives, 109 rural party members, and 78 peasant group cadres to act as proxy heads of the households.

After organizational approval, 20,415 households in the district were issued qualified head of household certificates. Of these, 2,178 households, or 10.7 percent, had women appointed as heads, and 607, or 3 percent, had proxies appointed.

The vast majority of the peasant masses were extremely serious about electing qualified heads of households. Some proposed that they be tested in their own homes and elected after a discussion between household members and village cadres. The day after being elected, some held household meetings to study how to help sons who had committed robberies reform and start anew, or how to become a "five goods" household. Others had originally been the "person in charge," but because they had committed robberies, they did not meet the requirements for being the head of the household. According to the rule, they should have appointed a proxy, but they repeatedly expressed a determination to change their ways, and pleaded to become the head. After careful study, the village's party branch and party committee agreed to the request. From now on, not only would they not break the law, but they would go heavily into scientific planting.

#### B. Establish a "Four Heads" Public Security Responsibility System

Based on preparations for the "four heads," they worked to establish the "four heads" responsibility system. It had two measures in all:

##### 1. Establish responsibility goals for the "four heads."

The goals for the heads of towns were: 1) Establish a tough force to comprehensively administer public security. 2) Earnestly and broadly disseminate education about laws. 3) Earnestly work out comprehensive administrative measures, obtain guidance work, and establish voluntary joint public security defenses between towns and villages. 4) Stabilize and reduce the number of criminal and civil cases, seek a 100-percent reeducation rate for lawbreakers and a 100-percent mediation rate for civil cases, and seek a 90-percent reform rate for lawbreakers and a 90-percent arbitration rate in civil cases. 5) Strive to create "five withouts" towns: towns without hoodlums, robbers and thieves, major cases, unresolvable contradictions that must be referred to higher authorities, and the scandalous phenomenon of the "six vices."

The responsibility goals for chairmen of village party committees were: 1) Enhance the comprehensive administration of village public security, that is, the "four defenses" (against fire, robbery, spies, and disasters affecting security), and guarantee the safety of peasants' lives and property. 2) Implement the village, group, and household public security contract responsibility systems, and formulate village rules, civil contracts, and

household rules. 3) Handle contracts for guidance work in villages, groups, and households; educate and help lawbreakers in the village to obey the laws and become a new person with the "four haves." 4) Strengthen the village's public security committee, establish mediation committees and a volunteer public security force; resolve the village's public security issues, and appropriately arbitrate civil disputes to avoid having them "turn from civil to criminal" suits because of improper or untimely arbitration. 5) Strive to establish "three withouts" villages: villages without criminal cases, public security cases, or cases appealed to higher authorities.

The responsibility goals of heads of peasant groups were: 1) Guide all peasants in the organization to study the laws, raise law awareness, respect and obey state laws, civil contracts, household rules, and social ethics, and strive to be a new "four haves" person. 2) Encourage and guide heads of households to carry out their responsibilities and establish "two civilization" households. 3) Keep a firm grip on the group's public security, handle the "four defenses", prevent crime, and help detect and handle criminal and security matters, and prevent and arbitrate civil disputes in a timely way. 4) Properly guide lawbreakers in the group so that they may become new people. 5) Lead villagers to produce, actively participate in establishing public welfare works, and actively fulfill state and collectives' task of turning over funds.

The responsibility goals of heads of households were: 1) Under the group's leadership, earnestly carry out the responsibilities of the head of the household, assume total responsibility for establishing the two civilizations in one's own household. 2) Organize household members to study politics, culture, science, and technical skills; constantly raise household members' socialist awareness and cultural and technological levels. 3) Guide the entire household to respect and obey state laws, civil contracts, and household discipline; effectively prevent fires, thefts, and accidents; help and educate household members who break the law, and really govern and look after one's own household well. 4) Organize the whole household to develop the "five good" family activities (the "five goods" being a good political ideology, observance of the laws, a good household unit, prosperity through hard work, and fulfillment of the state and collective mission); and establish the new stance of respecting the elderly and loving the young, helping neighbors, supporting and helping the poor, and loving one's country and collective socialism. 5) Have planned development of production, raise the material and cultural standards of living; lead the entire household to work actively for the public good; and guarantee the completion of various collective tasks for the state.

2. At every level, sign documents showing responsibilities for public security.

In order for the "four heads" to assume their responsibilities and have realistic responsibility goals which allowed each to "look after his own area and control his own people well," the "four heads" at each level signed

security responsibility documents, which they called "pledges." They pledged, on pain of economic punishment, to guarantee the loyal execution of their respective responsibilities. The head of household "pledged" to the group head, who in turn pledged to the village head, who in turn pledged to the town head, who then pledged to the town's party committee chairman.

To guarantee that responsibilities would be met smoothly, the district also established systems for regular head-of-household meetings, head-of-household classes, and "joint defense and joint regulation" between contiguous provinces and counties.

### C. Develop Multi-layered Education and Help

On the basis of establishing the "four heads" responsibility system, the district began four-tiered guidance activities for lawbreakers and backward youths, with the goal of "teaching them to become prosperous and mature."

1. Household guidance. The district had already determined that its targets for household guidance were composed of two types of people. The first were backward youths who were afraid of hard work, disliked rural labor, and preferred idleness; they formed roaming groups or gangs. After Chen's father was elected head of the household, Chen was identified as a clear target for household guidance. His father felt deeply responsible for guiding his son. He presided at a household meeting to study Chen's guidance work and requested household members to be enthusiastically concerned with Chen, and not biased. He demanded that Chen remorsefully change his errant ways and labor diligently. Because of Chen's characteristic cultural qualities and love of machinery, the father bought a planting machine for him to operate. Chen planted for the village, fearing neither sun nor rain, and took his responsibility seriously; he guaranteed his quality, charged reasonable fees, and was praised by the masses.

2. Group guidance. It was determined that there were 153 targets for guidance in the district. These were mainly public security menaces which lacked the conditions for household guidance.

3. Joint village-group guidance. The district determined that there were 185 lawbreakers who were public security menaces. These were such difficult cases that group guidance alone was insufficient. In these cases, from time to time it was necessary for the village to give them guidance publicly.

4. Joint town-village guidance. It was determined that the 41 people receiving joint guidance by the town and village were of two types. One type were criminals released for education. The other type were lawbreakers who endangered public security, or those with lighter sentences who were more difficult to guide with group guidance alone. For these people, in addition to the regular group guidance, each year the town government

held two class sessions within the legal system, and subjected lawbreakers to education on law and agricultural technology.

After less than six months of this four-tiered guidance, over 60 percent of those receiving guidance in the district had clearly turned themselves around. The rest also seemed to improve to various degrees.

## II. Results of Implementing the "Four Heads" Responsibility System

Since the promulgation of the "four heads" responsibility system in the Taiping Street District, there have been a variety of results:

A. Heads of households have a stronger sense of social responsibility. They have conscientiously protected public security, and strengthened the backbone for building the two civilizations.

After individual reports by households, group appraisals, and village party committee approval, the heads of households felt pride and a sense of mission, and generally linked household responsibility with social responsibility. To establish a "five goods" household, heads of households generally did their utmost to fulfill their jobs and responsibilities. For example, in the past peasant bricklayer Liu was concerned only with cash and not with his three sons. They drifted for long periods: one was a thief, one a confidence man, and one a gambler. They were called the "house of the three calamities." After being elected as a qualified head of household, Liu clearly appreciated his social responsibility and was more aware of his role; he brought his three sons into class to learn about the system of law and voluntary labor organized by the town government. The sons participated in Lei Feng and "do good deeds" activities. All three sons turned around, doing more than 30 good deeds in half a year. According to statistics, out of 20,415 heads of households in the district, 18,314—about 90 percent—were competent, 2,037—or 9.9 percent—were basically competent, and 64—a mere 0.03 percent—were incompetent. Each town or village worked heavily to improve these incompetent ones as necessary.

B. The district has raised guidance standards and improved the social climate to create a better environment for the healthy maturation of youths.

After implementing the "four heads" responsibility system, the district shaped its guidance of lawbreakers into a network, linking upper and lower levels and groups on the same level. It also shifted from its past methodology of "first criticizing, second struggling against, and third discriminating against." Instead it merged action with sensitivity, understanding with reason, ideological education with actual problem-solving, and education on the legal system with education on agricultural technology. It also combined helping someone mature into an adult with helping someone establish a family, and combined concentrated education with subtle motivation so as help lawbreakers turn

themselves around. The implementation of the "four heads" responsibility system has brought coordination between family and social education. This has effectively strengthened rural ideological work, improved the social climate, and created a better climate in which youths can mature in a healthy way.

C. The public security situation has taken a clear turn for the better, and the social order has become more stable.

The district's public security situation had been less than acceptable. The peasant masses "feared daytime robberies and nighttime thefts, wives feared their husbands' gambling, and husbands feared that their wives would meet up with hoodlums." In 1989, the district received a "zero" rating in the county's political work evaluation. After the "four heads" responsibility system began, in 1990 the number of criminal cases decreased 10 percent compared to the same period the year before. The number of public security cases decreased 44 percent, and the number of civil cases decreased 6.3 percent.

D. The leadership of the peasants by grassroots party political organizations has been strengthened, and there are closer ties between the party and the masses.

After villages began using the household contract responsibility system, they effectively raised peasants' production enthusiasm. However, because of changes in managerial methods, the guidance grassroots party political organizations gave the peasantry was weakened. However, now the "four heads" responsibility system has tightly joined the town's party committee chairman and the town head with the heads of households. This has effectively strengthened the leadership of grassroots party political organizations over the peasants. These organizations can rapidly disseminate their strategies and opinions on rural matters to the masses, and thus carry them out actively. At the same time, these organizations resolutely solved public security issues of avid concern to the masses; also, with enthusiastic help from the proxy heads of households and guidance work, they helped hardship households and those with poor reputations to leave their pasts behind and reform. Thus they effectively brought party-masses relations closer.

We believe that the "four heads" responsibility system fits the needs of rural economic reform. In the initial stages of socialism, when the countryside is implementing the household contract responsibility system, the "four heads" responsibility system possesses great vitality. Promoting the "four heads" responsibility system is an effective way to definitely strengthen the building of the two civilizations in the countryside, synthesize rural society's public security and government, and stabilize the rural social order.



## NORTH REGION

**Tianjin Rural Education Development Reported**

SK0705044 (V) *Tianjin TIANJIN RIBAO in Chinese*  
1 Apr 91 p 2

[By Shi Qian (1102 7905), Bing Fu (4426 0126), and Yan Hui (5333 6940): "Tianjin Makes Considerable Progress in Rural Education"]

[Excerpt] During the Seventh Five-Year Plan period, Tianjin's rural educational undertakings witnessed a great progress and an unprecedented historical change.

Since 1986, the rural areas in Tianjin have carried out reform of educational management system, thus forming the new system of "running schools by three levels and managing schools by two levels." At the same time, compulsory education has been promoted by stages and in groups, with townships and towns as the basic units. Over the past few years, the rural educational undertakings have progressed to a new stage every year. Thus far, compulsory education has been made universal in 116 townships and towns, accounting for 52.25 percent of the total. During the Seventh Five-Year Plan period, in addition to state allocations, the rural areas raised 250 million yuan in funds and used them to rebuild unsafe schools. During the past several years, schools with a total floor space of 1.947 million square meters were newly built, rebuilt, or repaired, accounting for 66.2 percent of the total floor space of primary and middle schools in the rural areas. As a result, unsafe school buildings were basically eliminated, and the municipal rate of unsafe schools dropped to 1 percent or lower, meeting the demands of the State Education Commission ahead of schedule. During the past several years, a number of high-standard teaching buildings were built, and some schools added computer rooms, phonetics rooms, and audio-visual education rooms, thus allowing the teaching conditions of rural schools to reach a relatively high level.

During the Seventh Five-Year Plan period, the teaching vacancies decreased noticeably, and the overall quality of teachers improved constantly. At present, 83.25 percent of primary school teachers are up to standard in formal schooling, and 56.55 percent of middle school teachers are up to standards in this regard, both showing a relatively big increase over previous years. During the Seventh Five-Year Plan period, the student dropout rate was basically brought under control. Last year, the dropout rate in rural areas declined to 3.36 percent, 3 percent lower than the national average. At present, a new pattern of developing basic education, vocational education, and adult education in a coordinated manner in line with unified plans has been formed initially in the rural areas of the municipality. [passage omitted]

**Hebei Official Stresses Legal Propaganda, Education**

SK1704003291 *Shuanghuang Hebei Provincial Service*  
in Mandarin 2200 GMT 16 Apr 91

[Text] At the fifth provincial work conference on legal propaganda and education, which ended on 16 April, Lu Chuanzan, deputy secretary of the provincial party committee, pointed out that implementation of the second five-year plan for legal propaganda and education should be closely combined with the central task of economic construction so that the legal popularization work will better serve the socialist economic construction.

Lu Chuanzan said that the five years covered by the second five-year plan for legal popularization are precisely the five years covered by the Eighth Five-Year Plan. We must, in light of the various problems existing in economic construction, exert great efforts in unflinchingly grasping the propaganda of economic laws and regulations. We should constantly strengthen the legal system and law enforcement among the vast numbers of cadres and the masses, leading cadres at all levels and law enforcement personnel in particular, in order to create a good social environment for fulfilling the various tasks stipulated by the Eighth Five-Year Plan and the 10-year program.

Lu Chuanzan pointed out that persistently regarding the Constitution as the core and the law governing the professional work as the focus is the conspicuous characteristic of the second five-year plan for legal propaganda and education. Through legal propaganda and education, all localities and departments should enable the vast numbers of citizens to firmly embrace the sense of the Constitution, to consider the Constitution as the highest standard, and to consciously safeguard the dignity of the Constitution.

Attending the conference were provincial leaders Ye Liansong, Nan Licheng, Hong Yi, and Wang Shusen, and responsible comrades of departments concerned.

**Beijing Boosts Community Services**

HK0705053191 *Beijing CHINA DAILY in English*  
7 May 91 p 3

[By staff reporter Liang Chao]

[Text] Beijing plans further improvements in community-based services and various welfare programmes this year in a bid to perfect the existing networks which have mushroomed since 1983.

By the end of this year, a much better welfare network, backed by the State-run large welfare projects and offering more daily and emergency services to more city residents is expected to be in place.

Officials of the Beijing Civil Affairs Bureau (BCAB) promised that multi-purpose service centres will be

established in every neighbourhood committee as a new regulation governing such welfare service programmes was enacted on May 1.

While pushing the government's policies down to the masses, the centres will focus on making residents' daily lives easy and comfortable. Duan Tianshun, director of the BCAB pledged yesterday at a press conference.

"The community-based services and facilities often built with raised funds have become indispensable for city residents as they face more and more urgent pressures of daily life," Duan said.

So far this year, the construction of 25 community service centres with more than 13,000-square-metres of building space have been under way, bringing the total newly-built to 45.

Because of the city's large population, a large amount of work, such as care for the large number of infirm elderly people, disabled and school children has to be provided by neighbours organized by community service centres.

At present, Beijing has more than 3,100 city-level welfare centres, and 64 percent of them can provide community residents with multi-purposes services for senior citizens and the disabled, as well as doing some household duties.

Meanwhile, there are more than 17,000 small service stations run by the city's neighbourhood committees. Half of them, Duan confirmed, can offer at least 10 different kinds of services.

According to Duan, more than 1,150 elderly people are taken care of in 52 homes or safe houses for the aged. Some 2,800 infirm old people, through contracts signed under the community centres, lived with other families.

**New Trade Relations Between Taiwan, Europe**

91CE03404 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 4, 28 Jan 91 p 27

[Article by Wang Jianmin (3769 1696 3046): "New Development in Trade Relations Between Taiwan and Europe"]

[Text] Due to the strong pressures from U.S. trade protectionism and a unified European market in 1992, Taiwan authorities have drastically modified their foreign trade policies. They have changed from previously "emphasizing the United States while ignoring Europe" to currently "focusing on both Europe and the United States," in order to speed up the pace of trade relations with European countries. Meanwhile, businessmen have also shifted their targets to Europe. As a result, trade relations between Taiwan and Europe have entered a new phase of development. By 1990, Taiwan's trade with Europe accounted for 18 percent of Taiwan's total trade volume. It is expected that by the year 2000, Europe will replace the United States as Taiwan's largest foreign trade market.

**Major Measures For Strengthening Taiwan's Economic And Trade Relations with Europe**

1. Taiwan has strengthened substantive bilateral political relations to provide conditions for economic and trade development. In August 1989 and November 1990, the former and current "economics ministers" paid respective visits to Europe to strengthen substantive bilateral relations. Thus far, 11 West European countries have established commercial and cultural agencies in Taiwan. Similarly, Taiwan has also established 16 representative offices in 14 countries. What is more, the names of diverse offices have gradually changed to the "Taipei Economic and Cultural Center." In addition, both sides are simplifying procedures for visa applications and insurance to provide favorable conditions for personnel exchanges and economic and trade contacts.

2. Taiwan has formulated the "Guidelines for Programs Strengthening Economic and Trade Relations with Europe" to promote bilateral economic and trade relations in a planned, measured manner. These guidelines include the following major points: Investigate the process of market unification in Europe, and make decisions in accordance with the situation. Emphasize market diversification, increased exports and imports to and from Europe (increase only imports from the United States, and increase exports to Japan while reducing Japan's imports to Taiwan), and expanded bilateral trade. Strengthen bilateral cooperation in investment and technology so as to effectively advance substantive bilateral relations in economy and trade.

3. Taiwan has pushed for a "small-scale European program," and established a "European design center" so that Taiwan may introduce advanced design technology, management, and namebrand products from Europe. On

the one hand, they will try to cooperate with European businessmen. On the other hand, they may penetrate the Japanese market with high-quality products. Sponsored by the authorities, the program has already made great progress.

4. Taiwan has set up special agencies to strengthen the study of the unified European market and has formulated policies correspondingly. These major policies include: the establishment of three large Taiwan trade centers in Dusseldorf, Hamburg, and Rotterdam, the establishment of over 70 sales branches with the help of these agencies, a preliminary plan to establish an industrial zone in Europe, and a decision to establish a "computer-industry district" in Ireland.

5. Taiwan has made vigorous efforts to train talented personnel to handle economic and trade activities with Europe.

**Economic and Trade Relations Between Taiwan and Europe Expand Rapidly**

Propelled by Taiwan authorities, Europe's position in Taiwan's economic and trade relations has become increasingly important. This is manifested by:

1. The trade volume between Taiwan and Europe has grown rapidly, and there is a tendency for it to replace trade between Taiwan and the United States.

2. Bilateral investment has increased substantially. In recent years, European investment in Taiwan has increased greatly. Also, Taiwan has rapidly increased its investment in Europe as well. In 1989, Taiwan invested over \$73.3 million, which was 1.3 times the total sum for the previous 30 years. Between January and September 1990, Taiwan's investment in Europe reached more than \$200 million, a 16.2-fold increase over the same period in 1989.

**Further Prospects for Economic and Trade Relations Between Taiwan and Europe**

There are some problems with economic and trade relations between Taiwan and Europe: a lack of personnel in Taiwan to handle economic and trade activities with Europe, inadequate financial strength in Europe, product quality that still needs improving, and a limited open market on Taiwan. However, relations between Taiwan and Europe in the areas of trade, investment, and technological cooperation will still develop quite substantially due to changes and restructurings in global politics and the global economy, as well as due to the active promotion by Taiwan authorities. One may predict that:

1. Bilateral trade between Taiwan and Europe will expand further. This is because bilateral investment between Taiwan and European countries has grown rapidly since 1989, and this will surely bring about a great increase in bilateral trade. Furthermore, as the European situation develops, demand will increase greatly. The devaluation of Taiwan's currency relative to



the major European currencies is another factor conducive to expanding Taiwan's exports to Europe. Guided and encouraged by the policies of Taiwan authorities, all these conditions point to a significant expansion in trade between Taiwan and Europe in the future.

2. The upsurge in bilateral investment is still in the initial stages. There is extensive room for further development. This is also true of European investment in Taiwan.

3. There will be new breakthroughs in technological cooperation between Taiwan and Europe. One of the major aspects of the "small-scale European program"

actively sought by Taiwan authorities is to expand technological cooperation with Europe and introduce advanced European design technology and management so as to reduce excessive dependence on Japanese technology. This is all for the purpose of improving the huge trade deficit with Japan and reducing undue dependence on Japanese technology. For instance, auto manufacturers currently controlled by Japanese technology have decided to campaign for change by playing a "Europe card," turning to Europe for its market and technology. Thus one can predict that there will be new breakthroughs in technological cooperation between Taiwan and Europe in the 1990's.

### Discussion of Six-Year Renovation Plan

91CE03004 Taipei TIENHSIA [COMMONWEALTH]  
in Chinese No 116, 1 Jan 91 p 27

[Article by Yao Ming-chia (1202 2494 0857) "Six Years of National Construction: 8.5 Trillion For the Renovation of Taiwan?"]

[Text] Li Teng-hui, Hao Po-ts'un, and Kuo Wan-jung [6753 1238 1369], three strong-willed leaders, promise a stunning landscape for Taiwan within 6 years. A six-year national construction plan for spending 8.5 trillion is about to be unveiled. Today, when public construction is unable to get off the ground, how will Premier Hao rally public sentiment, storm the mountain pass, and coalesce the strength of 20 million people to build a beautiful island?

To a certain extent, President Li Teng-hui, Premier Hao Po-ts'un, and Council of Economic Planning and Development Chairman Kuo Wan-jung have similar personalities in that they possess a vast breadth of vision and exuberant ambition.

Acting in unison, these three strong-willed leaders have jointly come up with an unprecedented, most free-spending, and most ambitious national construction plan—the six-year national construction plan. This plan calls for the investment of a total of NT\$8.5 billion, which is five times again as much as the total investment in Taiwan during the past six years, or construction expenditures of more than NT\$400,000 to be borne by every citizen in Taiwan.

### Beautiful Landscape Six Years Hence

The Council of Economic Planning and Development has proposed four major policy goals for the national construction plan to be unveiled early in the year as follows: "rise in national income, substantial industrial development, balanced regional construction, and improved quality of life." As a result of the carrying out of more than 800 investment projects, large and small, the following beautiful scene is envisioned for Taiwan's 20 million people: an economic growth rate of 7 percent annually, which will enable total GNP for the Taiwan region to reach \$295.7 billion, or a per capita GNP of nearly \$14,000 by 1996 in a rise to that of developed countries.

A thorough revamping of the industrial structure, 10 major newly developed industries, including information, and space flight, will be mainstays of the manufacturing industry with a total output value of \$61 billion for a burgeoning financial service industry that will enable Taiwan to vault to a position as a financial center in the western Pacific region.

With the building of a convenient express highway, a high speed railroad, and a circumferential highway network around the island, it will take only 44 minutes to

travel from Taipei to Taichung. This will increase Taiwan's political and economic development potential, and it will also completely change the pattern of people's daily lives and job choices.

With the building of 18 vitaspheres consisting of six major metropolises and 12 medium size cities, each of which will have industrial zones, hospital, residential, commercial and recreation areas, thanks to the rapid transit system, residents will be able to enjoy these facilities, which will be only half an hour away.

Every township will have a library, a swimming pool, and a public park, and every county will have a baseball diamond and an athletic field. Residents will be able to reach a museum or an art gallery within half an hour.

Such a beautiful scene of all the people living and working in peace and contentment will be astounding. The media has carried reports in which Kuo Wan-jung used "moving language to guide the citizenry into her 'crystal ball' to enter the future world of Taiwan six years hence."

Kuo Wan-jung, who was immersed in the rigorous world of mathematical economics for 10 years, actually uses neither a magic wand nor a crystal ball but modern high technology in making her six year national construction summary report. Chairman Kuo bought an Apple computer equipped with a color projector, which she used in the Council for Economic Planning and Development 10th floor briefing room to show a hundred computer-drawn color pictures and tables on the transportation network, vitasphere, electric power plants, and harbors. The straight-backed Chairman Kuo, pointer in hand, briefed President Li once, and has given more than seven briefings to Premier Hao.

Table 1. Six Year Advance to a Developed Country

Particulars	1991	1996
GNP \$1 billion	177.1	295.7
Per capita GNP (\$)	8,881	13,975
Economic Growth Rate (%)	7	7
Price Increase Rate (%)	5	3.5
Unemployment Rate (%)	2.1	2.3
Value of imports (\$1 billion)	60	95.6
Value of exports (\$1 billion)	70.5	103

Source of Data: Council for Economic Planning and Development

### Planning and Calculations Complete

These briefings are based on data reported by the 25 cities under jurisdiction of the Executive Yuan, as well as from Taiwan Province and from Taipei and Kaohsiung. Conclusions were made only after accelerated sifting, collation, and verification for three months by 300 civil servants in the Council for Economic Planning and Development. Additionally, there were total supply and demand models prepared by the Directorate General of

Budget, Accounting and Statistics, as well as Council for Economic Planning and Development input-output table extrapolated estimates, and a series of careful estimates. One official of the Council for Economic Planning and Development who took part in this work said, "Formerly Economic Planning and Development Council plans were written out, but this one was figured out."

As of the present time, Premier Hao is obviously quite satisfied with the Economic Planning and Development Council's achievements. At an Executive Yuan ceremony commending outstanding public servants, Premier Hao publicly praised the efforts of Chairman Kuo and her colleagues in the Council for Economic Planning and Development. Various indicators show that Premier Hao is filled with expectations and ambition for the six-year national construction plan.

Ever since he took office on 1 July 1990, Premier Hao has faced a basketful of complicated and difficult problems that have accumulated over the past several years: the rippling repercussions of the high level power struggle, paralysis of executive and legislative functions, serious backwardness in public projects, hesitation to move forward with civilian investment, deterioration of public order, and a murky recession... These ripples on the surface stem from structural imbalances and difficulties at the lower level of Taiwan society, from the constitutional government system, relations between both sides of the Taiwan Strait, the struggle between unification and independence sentiment, and even the provisions of legal regulations, and the quality of the citizenry and public construction, none of which can be adjusted in a timely fashion to meet rapid social changes.

Faced with this series of upheavals that compound confusion, how is Premier Hao to cope? When ground was finally broken toward the end of September 1990 for the Wuqing factory, around which turmoil has swirled for the past two years, this became the first breakthrough point for Premier Hao in reviving public confidence in investing. The imposing six-year construction plan is clearly something on which Premier Hao pins his hopes for coalescing popular feeling.

In the administrative report that he presented to the 86th session of the Legislative Yuan in September 1990, Premier Hao presented a special report setting forth the gist of the six-year national construction plan as follows: 1) government use of national resources in carrying out overall planning in a quest for long-range and overall returns to eradicate poverty in the midst of plenty, leading the country into a modern society that is wealthy and and urbane; 2) coalescence of popular sentiment and the people's resources around the goals of the six-year national construction plan; and 3) building of responsible government.

These factors aside, since there is limited time for the growth of Taiwan's foreign trade, the government must

expand internal demand as a means of infusing the flagging economy with growth strength.

Premier Hao entrusted the Council for Economic Planning and Development with this great responsibility. After nearly 10 years separation from the Council for Economic Planning and Development, Chairman Kuo, who faced a danger-fraught mission, happily accepted what she termed "the work that I have dreamed of getting for the past several decades." From top to bottom in the Council for Economic Planning and Development, there is no one who has not been affected by the atmosphere of earnestness and full devotion of Chairman Kuo. One weary but excited official of the Council for Economic Planning and Development who gave his all for three months said, "Chairman Kuo pays attention to every detail. She is very demanding."

#### **Full Commitment of the Council for Economic Planning and Development**

Kuo Wan-jung's strong will and attention to detail shows up in her ruling that all drafts, charts, and tables have to be prepared on special uniform drafting paper. When preparing estimated input-output charts, she personally asked two high ranking hands to help out. One was a retired official of the Comprehensive Planning Office, and the other was one of her students, a young scholar specializing in econometrics. She went over the content of completed briefings in scrupulous detail, like a mathematical economics model, reviewing them from cover to cover.

In reviewing one internal briefing in which the statement appeared that the Taiwan region had 4.68 million dwellings, but that there were 4.97 million households, the difference was explained by appending the following comment: 25 percent of families contain three generations in the same household. One-third of them are registered separately, but are not separate households. She immediately called a halt to this explanation which would not be readily understood, and after pondering a while, she said: "Change it to one third are in separate households but not in separate dwellings."

Can such a fine filtering process ensure quality for the six year national construction plan decisions? Quite a few officers in the Council for Economic Planning and Development acknowledge: Time is too short.

Although Premier Hao proposed the idea of a six-year economic construction plan back in early June 1990, it was not until mid-August that this idea was elucidated in government ministries and commissions, the ministries and commissions being instructed to send data posthaste to the Council for Economic Planning and Development by mid-September.

Within the short space of one month, the ministries and commissions were thrown into a panic with the result that every one of them were still send a steady stream of data and Economic Planning and Development Council checks and revisions during the three months when the



Council was collating. An example was Taiwan's natural gas requirements for 1996. After constant and repeated discussions between the Council for Economic Planning and Development and the Ministry of Economic Affairs, the Energy Committee, the Commission of National Corporations, the Central Petroleum Corporation, and the Taiwan Power Company, the figure was finally set at the equivalent of 4.69 million kungping (0361 4426).

Vitasphere Transportation Service standard data provided by the Ministry of Transportation currently provided for a D level of traffic speed between Taipei and Taoyuan, the level remaining at D (on a traffic zone scale from A through E, A being the fastest speed for vehicle flow) six years hence. The Council for Economic Planning and Development questioned this data. A second look revealed that this data did not take into account the completion six years hence of the two northern high speed highways and a high speed railroad.

Another example was population movement data for the various townships and towns in Taiwan. Statistics data showed that during 1989, the population of 22 townships and counties grew by more than 3 percent. It was not until President Li heard a briefing in September that doubts were raised as to why Wulai Township was included. Only then was it discovered that the reason for the population increase in four townships and towns, including Wulai, was the ghost population included before the general election two years previously.

#### Policy Decision Blind Spots

Wrong policy decisions are more to be feared than graft! Can slipups like those in these data hurt the quality of national construction plan policy decisions? A high ranking official in the Council for Economic Planning and Development knitted his eyebrows and said slowly and with difficulty: "Lots of basic materials are insufficient, such as incomplete land registry plats, and unsound basic data, so that when we make decisions, we are also in a quandary and have to ask enforcement units to find ways to convince us."

In addition, a newspaper editor pointed out that the Council for Economic Planning and Development's policymaking system, which is made up of the finance and transportation department heads of the Ministry of Economic Affairs, is prone to policy decision blind spots. He noted that Council for Economic Planning and Development policy decisions place too much emphasis on economic returns, frequently not paying sufficient attention to clashes with social, human, and environmental factors.

Consequently the establishment in Hualien of the special Peace Cement industrial zone, the building of nuclear plant No. 4, and the large scale building of coal burning power generating plants (that, it is estimated, will account for 27 percent of installed power generation capacity in 1996) are all extremely controversial matters, which were not conscientiously questioned. Policy decisions were made using roughshod methods, leaving the

units in charge to meet resistance at the actual time of project implementation. Driven by haste, the implementation plans of each ministry and committee frequently can only be carried out on a crash basis. One such example was a Ministry of Interior proposal to build 195,000 national dwellings within six years. When a briefing was given to Premier Hao, one ranking Executive Yuan official present said candidly that the building of national dwellings involved how to convert agricultural land to land used for residences, how to build new cities and towns, and how to coordinate construction with transportation and medical services for which no planning had been done. "Very possibly, three years down the road, the project will fall through," said this leader on the spot. Premier Hao immediately directed further work on this plan.

Planning work has also just begun on the high speed railroad plan sent to the Ministry of Transportation for consideration. Although construction has been agreed upon, including an investment of approximately NT\$370 billion, an official in the Council for Economic Planning and Development said incredulously: "We estimate it may cost NT\$600 billion."

Currently, all the controversies that arise in this planning and decision-making process are left to be worked out at the time of implementation. Whether planning on such an unprecedentedly huge scale can be smoothly and effectively carried out has aroused serious concern in all quarters. Some people worry that it will put the squeeze on the civilian sector, giving rise to a shortage of capital and a rise in interest rates. Others fear that it may cause inflation. After listening to a briefing on the six-year national construction plan, one citizen's first reaction was to ask Chairman Kuo: "Can these beautiful blueprints be realized?"

Chairman Kuo cannot and does not have the authority to reply to this question. The responsibility of the Council for Economic Planning and Development is only for planning. It is not concerned with implementation. Chairman Kuo emphasized that the work of the Council for Economic Planning and Development is to decide how much money the government has, the bill of fare, and whether there is sufficient manpower and materials to prepare this bill of fare. The actually cooking is the job of Taiwan's more than 1 million civil servants and personnel in public enterprises under leadership of Premier Hao.

Responsibility for implementation will be an unprecedented challenge to the Taiwan administrative system. One newspaper editor said worriedly that in dealing with various difficult social and economic development problems in recent years, the huge and antiquated government administrative machinery may be said to be at a loss what to do.

**Table 2. Public Investment for Fully Coordinated Industrial Development**

Particulars	1990	1996
Installed Electric Power Capacity (Kw)	17.37	27.53
Common laborers (Million)	4.73	4.86
Technical Personnel (Million)	4.073	5.023
High Speed Highway Distance (km)	382	1,081

Particulars	Total Additional Amount 1990-1996
Water Supply (Billion Tons)	12
Amount of Land Supplied for Economic Construction (Hectares)	28,600
Dwellings (Thousand)	900

Data Source: Council for Economic Planning and Development

Particulars	Units/\$1 Billion	
	1989	1996
Communications	1.45	4.1
Information	6	18
Consumer Electronics	6.5	9.15
Precision Machines and Automation	2.5	8.7
High Grade Processed Materials	2.27	4.63
Semiconductors	1.36	4.6
Special Use Chemicals and Pharmaceuticals	3.44	6.02
Spaceflight	.63	2.7
Medical Treatment and Health Care	.25	.61
Pollution Prevention and Control	.57	2.35
Gross Output Value of 10 Major New Industries	23	61
Added Value of 10 Major New Industries	10	24.4
Added Value of 10 Major New Industries as a Percentage of the Added Value of Manufacturing Industries	18.7%	30.4%

Data Source: Council for Economic Planning and Development

#### Administration Tested

Premier Hao is in a fairly difficult predicament. A high official of the Executive Yuan disclosed that every time the premier goes anywhere, he always makes a point of seeking out a grassroots administrative person in charge whom he asks, "How many people are there in your unit, and what is your annual budget?" or a similar seemingly "small question." Eighty or 90 percent of the replies are ambiguous, which makes the premier wonder about the ability of grassroots administration.

All the prime minister can do is use forceful leadership and put responsible people in charge to power this machine. He can use his leadership as premier to

mediate disputes between enforcement units of the Taipei Municipal Transportation Department, the Ministry of Transportation, and the New Construction Projects Bureau, and then instruct ministry and committee heads to bear responsibility for success or failure.

The Public Projects Supervisory Committee Report that he personally supported, since 1 October 1990, gave a new lease on life to many public projects that had been stalled for a long time. One example was the "setbacks and difficulties and countless hardships" encountered during the past two years in order for the Taipei Rapid Transit Bureau to get the "Chiaochiu" (0074 0046) near the railroad station for its own use, as a transportation bureau official described it. Once the prime minister ruled a turnover of the land to the Taipei Rapid Transit Bureau for priority use, the problem was readily solved overnight. The opposition that the Taipei Rapid Transit Bureau encountered in having to tunnel under the police headquarters building in order to build an equipment maintenance line was also resolved under similar circumstances.

Even the police academy, which had so vigorously opposed the Mushan line passing by the academy entrance, took the initiative with the Taipei Rapid Transit Bureau to reach a harmonious compromise. In addition, the New Construction Bureau's inability to get the land needed to build two high speed highways in northern Taiwan, one of which went through Taohsi in Taoyuan, and the P'uting section—a problem that had dragged on for two years—was also quickly solved when the prime minister said in an extemporaneous speech that the Taiwan Provincial Land Department should take responsibility.

Taipei Rapid Transit Bureau Road Rights Office director Ch'en Kuang-hsiung (7115 0342 7160) said happily that the efficacy of Premier Hao's personal stewardship lay in "the respect accorded him as prime minister, which eradicated the selfish departmentalism of individual units." Ministry of Transportation executive secretary Shih Kuo-kung (2457 0948 5147) also said with pleasure that "thanks to Premier Hao's assistance and stewardship, progress during the past four months on the two northern Taiwan expressways is equal to total progress made during the past two and one-half years."

It is easy for the prime minister to eliminate selfish departmentalism among ministries and committees, but it is no easy matter to eliminate structural difficulties in getting public projects underway. A ranking official of the Executive Yuan said that the prime minister had originally hoped that support for the public works supervisory committee report would be no longer necessary after several months, but the fact is that numerous problems cannot be solved without his support.

Clearly, success or failure for the six-year national construction plan depends on manpower and skilled personnel, yet manpower planning is rather sketchy in the plan. Just a few charts show a possible slight shortage of

common laborers. In the Council for Economic Planning and Development process, the manpower issue has been simply treated as one of two variables (technical personnel and common laborers) among eight input factors (such as land, water, and electricity).

#### **Skilled Personnel as the Key to Success or Failure**

However, interviews with implementation and construction units show manpower to be the key problem about which they worry most. Both Ministry of Transportation executive director Shih Kuo-kung, and Transportation Research Institute director Chang Chia-chu [1728 1367 4376] acknowledged that "manpower is definitely insufficient." Director Chang analyzes the reasons as being "too concentrated demand, the amount of work increasing too greatly all of a sudden." He further estimates a possible 30 to 40 percent manpower shortfall.

A visit to the work sites yields a similar conclusion. At the Fude tunnel site on the two north Taiwan expressways, New Construction Bureau Tunneling Project Department director Huang Chih [7806 3112] said as we walked along through the more than 200 meters of dark tunnel already dug that, "In a work squad of eight to 10 men, at most only two or three are technically skilled." If the manpower situation at the basic level is like this, the situation with engineers must be worse.

Huang Chih cited the Fude tunnel as an example, saying that from contracting to supervision to proprietorship, "generally there should be 17 engineers at the site, but there are not even one-fifth that number." With regard to the six-year national construction plan, this engineer, who has battled on the construction front for 20 years, expressed loudly and clearly the thinking of the grassroots level: "Yes! The government has the money, but it doesn't have the men!"

The skilled personnel shortage is particularly serious among high ranking personnel. New Construction Bureau director Ou Chin-te [2962 2516 1795], who returned to Taiwan to enter the construction ranks during the period when 10 major construction projects were underway in 1971, said with a sigh that the skilled people trained at that time have scattered everywhere during the past 10 years when government did not continue large scale construction. Even he himself went to Singapore for several years. Now, it will be necessary to begin all over to bring together such a large number of high level talent for the six-year national construction project.

Speaking about the serious shortage of high level engineers in Mainland China, Jiang Jinshan [3068 6855 1472], special assistant to the China mainland general director of engineering said that surveys show that more than 40 percent of businesses engaged in construction lack engineers. In 1990 the mainland spent 12 billion yuan renminbi on advertising to get engineers with three years or more experience, but it was impossible to reach the quota. At the same time, he noticed that the China

Engineering Advisory Office in the same building has numerous foreign engineering personnel coming and going.

#### **Inability of Construction Enterprises to Attract Engineers**

A look at the overall structure shows that the ability of enterprises engaged in construction to attract engineers in a situation of a general shortage of manpower and materials is limited. Today, even though there are 13,000 category A, B, and C businesses engaged in construction, most are small, only 25 of them having 500 or more staff members and workers, and only 10 of them making more than NT\$50 million. In 1989, GNP was NT\$186 billion. At this overall scale, how will it be possible to digest a future public works budget running to NT\$1 trillion annually?

The restraints of the regulatory system, as is generally known, are another reason why public works projects do not move ahead smoothly. Regulations pertaining to land are a particular case in point. The problems that occur when the current publicly announced value differs from the market value have always been a difficult nut to crack. Landlords oppose takeovers and appeals are made everywhere. Cases interfering with construction pile up endlessly.

Following the national land conference and the public projects study conference of 1990, a beginning was made in revising the regulatory system, including revision of the average land rights regulation and revising and enlarging the land estimator law. Nevertheless, more than 500 existing ordinances have been paralyzed on the Legislative Yuan agenda, pigeonholed for several years. Whether these regulations, which still lay before administrative units, can be passed on time is another major test.

Although such a revision of regulations to solve real problems is important, Transportation Research Institute director Chang Chia-chu particularly emphasized that new problems will arise as new construction takes place, requiring new regulations.

For example, as long as there is a transportation system, new laws beyond highway laws and railroad laws will have to be drawn up. The same is true for future expressways. Although a public transportation law has been passed and is in effect now, attendant matters such as surface and subterranean land use rights, joint development methods, civilian investment for the building of public transportation methods "are not in being and waiting. They will have to be drawn up as we go along," Chang Chia-chu said. The delay that these regulations occasion, and the costs incurred are actually quite alarming. For example, delays in unveiling joint development methods caused land requisitioning for a many rapid transit stations to be delayed for many years.

Policy making personnel are seemingly unconcerned about these matters. The six-year national construction



plan mentions them just casually, which makes people worry whether such matters will continue to create controversy, waste time, and increase costs in Taiwan. A senior newsmen raised the question that in view of the deficiencies in the administration system seen in the Taiwan Railroad Bureau's mounting losses, people wonder "what kind of an effective management system the high speed railroad will be able to come up with."

In view of these deepseated structural problems, one newspaper editor noted carefully that the real key to success or failure in the six-year national construction plan is not how many express highways or high speed railroads can be built, but rather in whether it will be possible to take advantage of the process of moving ahead with the construction to train for Taiwan a group of skilled personnel, to build and perfect a civil official system, to revise the outmoded regulatory system, and to fashion government administrative regulations and enforcement capabilities.

Only if this can be done will it be possible to eradicate poverty in the midst of plenty and advance toward a modern society. Otherwise, if "intangible building is not done well, no matter how good the tangible building, it will have to be discounted. No matter how much money is spent, it will be to no avail. It will be a bottomless pit," said Executive Yuan Political Affairs Committee member Huang Shih-cheng [7806 4258 1004] sincerely and earnestly.

#### Citizen Quality More Important

Ultimately, all these matters come down to the issue of the quality of the citizenry. Huang Shih-cheng noted forcefully that "at the present time the building of intangibles is more important than the building of tangibles." However, no more than NT\$21.7 billion of the NT\$8.5 trillion to be spent on the six-year national construction plan is for cultural construction, and most of this will be used for the building of tangibles such as public television, movie, and cultural buildings. Cultural Construction Committee director Kuo Wei-fan [6753 3634 5672] admitted that "because of the press of time, much of the plan is rough." After reviewing the six-year national construction plan made up of railroads, highways, power generation plants, and a rapid transportation system with the goal of improving the "quality of citizens life," a responsible official in a certain organ immediately suggested to committee director Kuo that the government should follow up with corresponding daring and resolution in the formulation of a 6 year plan for training talent to improve "citizen quality."

During mid-December, 1990, committee director Kuo accepted an invitation from the Taiwan Television Corporation to give a public speech on the six-year national construction plan. Wearing a purple suit, and glowing with health and vigor, committee director Kuo fielded questions from the audience at the conclusion of a one-hour speech. In the midst of a barrage of questions, one person said "Merry Christmas to you," and another

was envious about "a Moscow subway ride costing only five kopeks." Another person shouted, "during the war of resistance to Japan, everyone loved to use Chinese products. Why is it that everyone now uses Japanese goods." Although committee director Kuo continue to beam, in his heart he must have been somewhat dumbfounded: just what does the public expect of the six-year national construction plan?

Just how many expectations can the six-year national construction plan satisfy? Will it be able to help Taiwan solve numerous problems? Into what realm will it take Taiwan?

Will it "coalesce the hopes of 20 million people to build a beautiful island" as committee director Kuo hopes, or will it be a "a contemporary entrepreneurial plan with grandiose hopes and puny accomplishments," or even a "foolhardy great leap forward to surpass England and catch up with the United States" as one newspaper editor suspects?

The answer depends on the resolve of President Li and Premier Hao to mobilize NT\$8.5 trillion and to lead more than 1 million public servants and public enterprise personnel.

Someone said that "Anyone who desires glory must bear risks and responsibility."

#### Party Compromise on Constitutional Reform Seen Necessary

91CM03344 Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No. 204, 8 Feb 91 pp 21-24

[Article by Ch'en Yu-hsin (7115 5940 9515): "So Long as I Benefit, Why Not Do It! A Series of Kuomintang Feints, Strikes, and Steps as a Result of Its Confidence Crisis"]

[Text] After losing the two major opportunities one after another for taking over as cabinet premier and becoming secretary general of the KMT [Kuomintang] Central Committee in 1990, Office of the President Political Adviser Ch'iu Ch'uang-huan [6726 0482 3562] quoted a warning that is popular in the Japanese political forum: "In politics, darkness lies just one inch ahead," meaning that, considering the myriad changes that can occur in the political forum, even a completely cooked duck may take flight. In view of the situations facing the KMT right now, such as tumult in the internal distribution of power, difficulties at every turn in extrinsic constitutional government reform, and even misgivings about being able to maintain power, this saying should be changed to: "In politics, brightness lies just one inch ahead." This is because the "inch" to be gone through this year, beginning with the yearend election of a National Assembly to revise the Constitution, victory or defeat in the election, settlement of accounts within the party after the election, and whether revision of the Constitution can be started are an expanse of darkness. It has already caused both the mainstream and the non-mainstream factions of the

KMT to reach a consensus with difficulty, namely, that confidence is greatly shaken.

Kuomintang confidence in its ability to maintain control over the future political situation is like the tremendous shaking of the most recent Taiwan earthquake in that it is a warning that several phenomena convey

- The high-level controversy about "one organization, one stage"; "one organization, two stages"; and "two organizations, two stages."
- Whether the yearend election of a National Assembly to revise the Constitution should be delayed until the end of next year for a merger with the Legislative Yuan election.
- Desire to revise Article 28 of the Constitution to permit incumbent officials to run for election to the National Assembly to revise the Constitution in the places where they hold office.
- Desire to revise the Farmers Association code, intention to permit the Farmers Association general secretary not to have to resign in order to be able to run in the election to the National Assembly for revision of the Constitution.
- Study and discussion of the one-time nationwide election of assemblymen at-large in the same way as professional groups select representatives.
- The Central Committee Election Committee Selection Law Research and Revision Team is now studying and discussing ways of voting in places other than one's place of domicile in a liberalization of soldier absentee voting.
- Election districts for the election of a National Assembly to revise the Constitution are to be made much smaller.
- The KMT has announced that it will not hold a third Central Committee plenary session so that it can devote itself completely to preparing for constitutional government reform.

According to procedures for revising the Constitution, a motion must be made by one-fifth of the total number of national assemblymen, with two-thirds of the assemblymen in attendance, and a resolution by three-fourths of those in attendance is required for passage of a revision to the Constitution. This series of limitations has caused a decline in KMT confidence, not because it may lose half its seats in the election of a National Assembly to revise the Constitution requiring that it hand over power to the Democratic Progressive Party [DPP], but rather that, should the KMT not win three-fourths of the seats, it will lose its dominant position in revising the Constitution, or revision of the Constitution may even come to a halt, providing an even a greater stage for resistance from the opposition.

Moreover, not only is constitutional government revision a means of loosening up Taiwan politics, it is of even greater importance to the KMT. One might say that it is the KMT's foundation for being the party in power in Taiwan for a long time. If the foundation is damaged, a heaven- and earth-shaking crisis can occur because of

the resistance of the opposition. Because of constitutional structure deficiencies, running the government may also be fraught with dangers at every turn. Furthermore, constitutional reform is the only medicine that can stop the slide that the KMT has experienced in past elections. Only if constitutional reform can be completed by the middle of 1992 will the KMT's vote-getting rate continue to lead that of the DPP.

However, if three-fourths of the seats normally translate into 75 percent of votes received, then, as a high-ranking government official said frankly, in what general election during the past several years has the KMT received more than 70 percent of the vote? To get 75 percent of the vote in the yearend election of the National Assembly for revision of the Constitution may be said to be "trying to force people to do what they do not want to do."

It is precisely because of the required high voting rate of 75 percent, that getting such a vote rate has become a lost art for the KMT in the increasingly open Taiwan political situation. Creating a record at the end of the year is certainly a major burden that presses on the KMT's shoulders. It gives the KMT supplementary election system virtually no time to catch its breath. Failure of a single party worker to carry his load poses a truly major challenge as well as a real difficulty.

The KMT has by no means forgotten that it lost seven seats in the last election of 21 county magistrates and mayors; it received 50 percent of the vote, DPP's rate was 37.56 percent. In the Legislative Yuan election, the KMT received 54.85 percent of the vote, while the DPP won 25.79 percent. In the Provincial Assembly election, the KMT received 54.88 percent of the vote, and the DPP got 21.14 percent. Even when the number of votes of elected independents are added in, in the general election at the end of 1989 the KMT received no more than 60 percent, a long way from the 75 percent "high standard." This is a long and bumpy road. This is not to mention that, during the past year, the basic-level supplementary election system has undergone many leadership changes. People of crucial importance have been supplanted by basic-level supplementary election party workers from Sung Ch'u-yu's [1345 2806 3842] system. At a time when local sentiment is still in semi-formed, the need to face the hard battles to elect a National Assembly to revise the Constitution causes onlookers even more to hold their hearts in their mouths.

In an atmosphere of resistance to retirement, the old National Assembly has taken the opportunity to try to exact a price from the KMT Central Committee. They have forced KMT Central Committee Secretary Sung Ch'u-yu to have several contacts with them. The supplementary election system has thus sounded a warning about the election of the National Assembly for revision of the Constitution. Having lost its bearings, the KMT has had two reactions. One is "not forcing people to do what they do not want to do," by which is meant not holding a National Assembly election to revise the Constitution, but rather changing to letting the old

National Assembly take complete charge of constitutional revision. The other is to "show what it can do," using every means to find ways of increasing its vote-getting rate.

At the high-level meeting convened by Vice President Li Yuan-ts'u at the Office of the President, an important official reportedly opposed holding a National Assembly election to revise the Constitution on grounds of "difficulties with a supplementary election." At a KMT constitution revision planning group meeting, however, Minister of Justice Lin Yang-kang [2631 3152 3263] said revealingly that unless the KMT takes three-fourths of the seats in the election of a National Assembly to revise the Constitution, it will be unable to push through any bill for revision of the Constitution.

The vote-getting rate in the supplementary election will also not turn out the way the KMT imagines, therefore, not holding an election of the National Assembly to revise the Constitution is a partisan idea held by some KMT personages. Central Policy Association Deputy Chairman Hung Yu-ch'in [3163 3768 2953], who is responsible for maintaining contacts with the opposition, said with puzzlement that he also does not understand the policy planning group to have made a decision. However, when he attended a meeting at which Vice President Li contacted the Central Committee Standing Committee, what he heard was that the majority favored "one organization and two stages," so what is all the uproar about one stage or two stages? He said that not long ago, he met with Chang Jun-hung [1728 0193 1347], DPP secretary, who reluctantly accepted the election of a National Assembly to revise the Constitution. If this election is not held, and the old National Assembly revises the Constitution, he predicted that the situation might become rather pessimistic.

However, a high official in the Office of the President noted that in his capacity as chairman of the KMT, the president is naturally very much concerned about the chances of the party in power for victory in a yearend election. As the country's prime minister, he cannot refuse to push ahead with reform of constitutional government simply because the KMT cannot muster three-fourths of the seats. This official emphasized that the president is determined to push ahead with constitutional reform, but that he does not have a partisan point of view. Because of misgivings, he will not resort to reform of one organization in two stages.

In addition, because halting the election of the National Assembly to amend the Constitution would be generally regarded as perfidious, although some people in the KMT voice approval for this course, there are also quite few sounds of opposition. Particularly since President Li Teng-hui announced just a month ago his intention to use "one organization in two stages" to amend the Constitution, but now wants to change course out of consideration for interests within the KMT, his prestige has, of course, been seriously hurt. One high-ranking government official said with great dissatisfaction that

most of those who advocate one stage are those who do not have to bear political responsibility. Naturally, they can casually advocate what is in their personal interest, or consider only short-term interests. However, criticism of President Li, saying that he must be more responsive to the popular will nationwide is unfair to President Li.

Reportedly, it is precisely because of Li Teng-hui's increasingly staunch policy of "one organization in two stages" that, after more than a month, the high-level uproar about one stage or two stages has settled down. The high-level official in the Office of the President said clearly that President Li will not call together Chiang Yen-shih, Hao Po-ts'un, Lin Yang-kang, and Ch'iu Ch'uang-huan again to discuss this controversy. However, a high-ranking official who took part in the decision said that the policy has been set. As to how the ruling party will achieve dominance in the second session of the National Assembly to revise the Constitution, this high-level official said in a veiled way, "That will depend on the methods used in the supplementary election."

A member of the KMT Central Committee said that, since there are numerous difficulties in gaining dominance for constitutional revision among the 378 members of the Second National Assembly, somehow the ruling party still has to win three-fourths of the seats. As for methods, he said, except for Chen Pa [3914 2149], who has more appeal among the candidates, putting more manpower into the supplementary election, improving supplementary election skills, and accelerating the number of retirements from the Legislative Yuan are all ways to increase the vote-getting rate.

Even more deserving of attention is how the KMT will be able to cure its own confidence crisis, and the strong medicine it will take for this election.

As a means of tightening up sources of votes, the KMT has adopted a tactic of reducing the number of electoral districts. An important member of the Legislative Yuan who is well versed in election matters said that the KMT's chances of winning more than three-fourths of the seats would increase if the electoral districts for election of a National Assembly to revise the Constitution more closely approximated election districts for township, town, and city magistrates, burgesses, and mayors.

In the orientation of candidates, the local appeal of the Peasant Federation secretary general runs deepest, the federation's organizational methods also cut across factional lines, and it has money. If laws can be smoothly revised to permit the Peasant Association secretary general to take part in the National Assembly, this would be most favorable for the KMT, which holds an overwhelming majority of the Peasant Association secretary general seats. Also, revision of the Constitution to permit officials to take part in the election of the National Assembly from any location would also help the KMT play its image card. Allowing soldiers to vote outside of



their place of domicile is also a device for expanding a source of votes, which would mean 500,000 ballots that could influence the election of the opposition in numerous places.

The KMT Central Committee confidence crisis shows up not only in panic about its vote-getting rate in the election, but is also revealed in controversy about whether to convene a third plenary session. The seldom seen controversy among both mainstream and non-mainstream factions in the 1990 provisional party plenary session makes the KMT Central Committee dread the holding of a plenary session. In 1991, in particular, when revision of the Constitution has not yet been settled, any controversies in the plenary session could only intensify the attribution of responsibility for the content of constitutional revision. Nor does the mainstream faction have confidence that it can soothe internal conflicts that might break out at a plenary session. If the plenary session hurts the KMT internally and it has to face yearend elections with an internal wound that might become an external wound, naturally this could not be countenanced by the Kuomintang, whose confidence is already shaken.

A tempest over not holding a third plenary session could be weathered, because even the non-mainstream faction, which is filled with regrets and wants to launch a counteroffensive to gain lost ground, is also aware that a yearend election of a National Assembly to revise the Constitution would be an uphill fight. If matters were to go badly, both the mainstream and the non-mainstream might become the end stream in the political forum. They would not be able to come down hard on Li and Sun for not convening a third plenary session. However, beginning in the dark period when the election battle began at the end of the year like a political black hole, not only would there be a dark pervasive uncertainty and a weird unfathomability, but the powerful attraction radiated would offer the KMT no place to escape.

As for those who insist on the building of a base for constitutional government according to the KMT blueprint, the high vote rate of three-fourths of the seats that is needed naturally shakes their confidence, and they would like to find another way to strengthen themselves. However, some people in the KMT have also looked at political realities, and they are preparing to come to terms with the DPP during the 1992 revision of the Constitution. An official in the Office of the President said if revision of the Constitution were a one-party matter, the door could simply be closed and the revision made. There would be no need to go to the trouble of electing a National Assembly to revise the Constitution. He felt that the KMT would have real difficulty in getting three-fourths of the vote, and would be unable to achieve dominance in revising the Constitution. For the DPP with a strength of one-fourth, manipulating the direction of constitutional reform would be even more

difficult. Only by sitting down and coming to terms can both parties complete constitutional reform. Otherwise, only an impasse can occur.

However, cooperative discussions between both sides about constitutional revision must be based on both sides acceding to the election results. If they resort to various technical devices to achieve a dominant position for revising the Constitution, even with 75 percent of the vote, which is sufficient for the ruling party to do as it pleases, the result would not bring long-term peace for Taiwan. On the contrary, it would increase the uproar, or as a recent advertisement against amphetamines said, produce "a temporary taste of pleasure and a lifetime of misery."

### **Business Urged To Open Markets in Middle East**

91CE0439B Taipei CHING-CHI JIH-PAO in Chinese  
2 Mar 91 p 2

[Editorial: "Take Advantage of Middle-East Reconstruction To Open Up Markets"]

[Text] President Bush formally announced the other day that a cease-fire took effect in the Persian Gulf War on 8 February at 1 pm (Taipei time). Kuwait and Iraq have been devastated by the war. According to Governor Sabah Salim of the Central Bank of Kuwait, 650 Kuwaiti oil wells are still burning and oil production can resume only after nine months of repair. The reconstruction of Kuwait is estimated to cost \$100 billion, perhaps as much as \$500 billion if civilian losses are included. There are as yet no formal estimates of the costs of rebuilding Iraq. The massiveness of the projects in the reconstruction of the Middle East in the next few years and the amount of money required are such that every nation is eyeing it very closely in hopes of getting a piece of the pie. Out of gratitude to the nations that liberated it, the government of Kuwait will award contracts according to the contribution of a nation. Since the U.S. led the allies in standing up to Iraq and recapturing Kuwait, American companies are best placed to win the contracts. Kuwait has even commissioned the U.S. Army Corps of Engineers to take care of project bidding and subcontracting. It is only natural therefore that U.S. firms would have a leg up on their competition. Supported by their governments, British and French firms too are scrambling to get a large slice of the pie. As for Japan, which did not participate in the war, its government is taking a cautious approach and has not directly lobbied for contracts to avoid criticism by other nations. Instead, action is limited to local firms built by Japanese companies in the past.

Since Taiwan is not a UN member, it did not participate directly in the Persian Gulf War. Nor has it made any contributions to help defray war costs. Thus the Chinese government too has refrained from lobbying for reconstruction contracts on behalf of Taiwan businesses. Taiwan companies, therefore, must fend for themselves. However, before the war they have undertaken many

construction projects in the Middle East and established a strong track record there, one that is much praised and appreciated by governments in the region. So there are good relations between Taiwan and the Middle East. Moreover, many projects are still unfinished, construction came to a halt when war broke out. Now that Kuwait is liberated, we should ask for permission to return to finish the projects without delay and win new contracts. Besides, there is more to the reconstruction of the Middle East than public works projects. The rebuilding of the private sector and civilian homes needs more money and involves a broader area. Taiwan cannot spare any additional civilian engineering and building materials for export at present as they are needed for domestic construction. Nevertheless, we are capable of supplying other products, such as electrical machinery, medical equipment, industrial machinery, communications equipment, transportation equipment, drugs, plastic goods, textile products, furniture, ornaments, and processed food, for which there will be a massive demand. If Taiwan businesses can grasp this excellent opportunity and take the initiative to cultivate the Middle East market diligently, they would be doing a lot to help the economy climb out of its current doldrums.

To take advantage of the opportunity afforded by the reconstruction of the Middle East, we have the following suggestions for government and business:

**For the government:**

1. Participate actively in the Middle East Development Bank. To help facilitate Middle East reconstruction, the U.S. has proposed creating a Middle East development bank. We have not contributed a dime to cover the costs of the Persian Gulf War. If we are to get a piece of the action now, we must take an active part in the proposed bank by dipping into the Overseas Economic Cooperation and Development Bank or jointly contributing capital. It is hoped that the agency in charge will make plans immediately and get all sorts of preparation under way.

2. Instruct the Chinese Import/Export Bank to allocate more funds to finance exports to the Middle East. While Kuwait has a wealth of funds overseas, they cannot be processed readily. In fact, if too much money is transferred, the international market will be disrupted. Hence the urgent need for export financing. If the Chinese Import/Export Bank can increase export financing for exporters to the Middle East, it will be a big boost for our drive to increase exports to that region.

3. Assist the Foreign Trade Association to reopen its commercial office in Kuwait, which was closed earlier because of the war. Although the war is now over and Kuwait has been liberated, the general secretary of the Foreign Trade Association announced yesterday that the association will not reopen the office for the time being because of cost considerations. Instead it will send a person there to help businessmen look for opportunities to do business. We think some rethinking is in order

here. Now is the time when the Foreign Trade Association should be going all out to help businessmen to get a slice of the Middle East market. The agency in charge should help the association solve its funding problems and reopen its office as soon as possible so that it can resume its services to business.

**For business:**

1. Organize a Middle-East economic and trade delegation. The Foreign Trade Association should take the initiative to invite companies interested in exporting to the Middle East to join an economic and trade delegation to the region to do on-site market studies and get to know what it really needs. It should bring together companies in the same line of business in a marketing alliance so as to avoid cut-throat competition and conquer the Middle East market in an orderly manner.

2. Build a warehouse in Kuwait from which goods can be shipped out. As they rebuild their country in the aftermath of war, the Kuwaitis will need materials quickly. The Foreign Trade Association should help business build a warehouse in the area from which goods can be despatched as soon as an order is received so that no time would be lost.

3. Seek out opportunities for cooperation. To repay countries that liberated it, the Kuwaiti government gave American, British, and French companies priority in the awarding of major contracts, including the rebuilding of public facilities and key industrial plants. Yet these companies cannot complete the projects on their own but need cooperation from other firms as partners or subcontractors. Chinese businessmen should go there in person to search for cooperation and subcontracting opportunities. Certain European and American corporations, in particular, have an ongoing business relationship with us. Bechtel Corporation, for instance, which has been awarded big contracts by Kuwait, also invests in Taiwan. Our businessmen should make use of such connections to expand their operations in the Middle East.

In short, because of their abundant oil resources, money is no object in the reconstruction of Kuwait and Iraq in the next three years after oil production resumes. While Taiwan will concentrate on domestic development and domestic sales in the future, there is a limit to what the domestic market can absorb, so we cannot afford to overlook exports. If an opportunity to sell overseas presents itself, we should grab it at once to keep the economy growing at a moderate pace.

**Editorial on Opening Private Banks**

91CE04394 Taipei CHING-CHI JIH-PAO in Chinese  
4 Mar 91 p 2

[Editorial: "Preparing for Repercussions After Opening Private Banks"]

[Text] The Ministry of Finance is scheduled to announce next month the results of its review to set up private

banks. Reports say that of the 19 applications, the ministry will approve 13. Another rumor is that more, perhaps, all, applications would be approved if they meet the requirements. Needless to say, these are just rumors. Perhaps even the ministry itself has not decided how many should be approved. Whatever the number of new banks, they are going to have a major impact on the domestic banking scene.

The opening of security brokerages in the past sent shock waves through the financial world, causing unnecessary disruptions. Banks are different from stock companies; they have an even wider impact. If we do not take proper precautions against their negative effects, we may be in for worse disruptions. Thus even before the list of approved banks is disclosed, I will analyze its possible repercussions so that the agency in charge of banking affairs, banking institutions, and members of the public in general will pay attention and plan preventive measures.

First, the impact on banking personnel. Right now it is not known how many new banks will be approved. To cut operating expenses, these new banks have only a skeleton staff at present, a handful of full-time staffers, numbering no more than 20 or 30 people at most, involved in preparatory work. But once they are approved to open, they would need at least 100, at most 200, 300, even 400 employees each, including those in the head office and in the branch banks. These employees must be well versed in the financial or banking business; not everybody can be given on the job training. During this preparatory stage, therefore, all the banks have been building up their pool of talent, in most cases by hiring people from existing banks. Most of these workers, however, cannot leave their current employers yet and they are also worried whether the new bank will obtain approval to open. Thus none of them has the courage to commit himself openly but only makes promises secretly. Reports say that many new banks are luring employees of existing banks in groups. Led by a senior manager, some employees are defecting to a new bank in droves. To prepare for the bank's opening and to familiarize themselves with its operations, these people go to their old jobs during the day but report for work or train at the preparatory office of the new bank at night. When the new bank is formally granted a license, these people, assured of new positions, will no longer need to act so stealthily. They are certain to resign en masse from their old employers and join the new bank. Assuming that 13 banks will obtain approval, there may well be more than 1,000 such people, most of them currently with prestigious banks. The resultant brain-drain will catch their current employers unprepared. Just imagine the plight they will be in. If they firmly refuse to let their employees go, they will only set the stage for a confrontation. If they let them go, how are they going to fill the vacancies? This will be a serious problem for existing banks.

Second, after a new bank is given approval to open, it will certainly try to attract capital stock. New banks have disclosed the sources of their capital but they are mere figures on paper. They have not actually been raised.

Once a bank opens for business, it must immediately come up with the capital. By itself a bank cannot raise too much capital. But when a dozen banks raise capital at the same time, hundreds of billions of dollars in capital will be frozen on the market. This will hit the financial market really hard, creating banking disorder and altering the capital structure. Such a development has both pros and cons for banks already in existence. On the whole, though, it is more a minus than a plus. A major concern facing these institutions now is how to handle the transitional period.

Third, after banks open, their top priority is to attract depositors and gain access to usable capital. While all financial institutions right now have ample deposits, it is uncertain whether people would be willing to take their money from an existing bank and deposit it in a new bank, which has yet to establish its credit. Instead of siphoning off existing deposits, therefore, new banks can only hope to attract new deposits. Since new deposits are limited in the short term, new banks will be forced to raise interest rates to lure customers away from old banks. As banks compete for customers, will they start an "interest rate war?" What will that do to the economy as a whole? This is worth noting.

Finally, to make a profit, new banks must look for every opportunity to lend money and invest. To woo customers, it may be tempted to offer loans on preferential terms and relax evaluation criteria. Not only will risks increase, but it will also narrow the gap between the interest rate it pays depositors and the interest rate it charges borrowers. While this will certainly help promote banking and interest rate deregulation, it is highly problematic that banks will make a profit in the short run.

Finally, not all banks allowed to open for business would enjoy smooth sailing and make a profit in a short time. If a bank is forced to cease operations within a year or two due to mismanagement, what kind of social damage will it do? Not only will its own customers sustain losses, but it may even cause a banking crisis if we are not careful. I hope that will not happen, but to prevent just such a scenario, the agency in charge of banking affairs must take preventive measures in advance.

Based on the above analysis, I propose that we take the following courses of action:

First, the Examination Yuan should organize special examinations for banking personnel as soon as possible to build up a pool of Class B and C banking personnel, ready to be tapped by the banks when they are short of employees.

Second, to ensure the safety of the depositors' money, the banks shall be required to join a bank deposit insurance program. Any deposit below the specified amount shall be insured.

Third, new banks shall be put under stringent financial supervision to make sure they are properly run. Accordingly, the Ministry of Finance and the central bank



should beef up their team of banking inspectors, improve the quality of their work, and disclose the results of their inspection.

### Editorial Views Banking Privatization

91CE0431A Taipei CHING-CHI JIH-PAO in Chinese  
10 Mar 91 p 2

[Editorial: "Hastening the Birth of Privatization of State-Owned and Operated Banks"]

[Text] In view of the opening of the banking industry for the establishment of new banks, which can be expected in the near future, and due to the fact that state-run banks are presently suffering from restrictions imposed by various decrees, by administrative, personnel, and audit organs, as well as by organs of the will of the people, curtailing the profits of state-run bank operations, also to prevent that after the establishment of a large number of new banks, the state-run banks will suffer the fate of being eliminated in the fierce competition of the future. Wang Chien-hsuan (3769 1696 3551), Minister of Finance, instructed the Monetary Affairs Bureau a few months ago to study and draw up measures to cope with this situation. On receipt of these instructions, the Monetary Affairs Bureau of the Ministry of Finance assiduously studied the issue and formulated the draft of a "Law Governing the Control and Management of State-Run Monetary Organs." The initial draft was completed a few days ago and submitted in form of a brief report to Minister Wang. Because the matter involves too broad an area, it was proposed to leave the final conclusion and decision to later, when a common understanding will have been reached at the All-China Monetary Affairs Conference, scheduled to be held during the first half of this year.

Since the revised Banking Law was passed and promulgated on 17 July 1989, opening the banking industry for the establishment of new banks has already become an established fact. In due time, many new banks will be established by the private sector, while the state-run banks will still be suffering irrational interferences and restrictions. Apart from the generally known interferences by special privileges and the responsibility assumed by the audit organs to investigate bad debts, the state-run banks are also subject to restrictions and interferences by various laws and regulations in such areas as their organizational establishment, employment of personnel, wage scales, and even the procurement of equipment and the purchase and setup of business premises. If they cannot break out from these restrictions, they will certainly be hard hit by fierce competition in the future. But if the problems are to be resolved individually, not only would amendments to many legal provisions have to be made, but also much time and energy would be required—add to this the ignominious efficiency of the legislative process—all, which taken together, make for an even less optimistic outlook. Moreover, interferences by special privileges cannot possibly be resolved by the amendment of laws, so that the best alternative would

really be to privatize those state-run banks that can suitably be operated by the private sector, and thus bring about a fundamental solution of the problem. It was for this reason that on 25 July 1989 a team was set up at the Executive Yuan to work exclusively on the privatization of state-run enterprises. This team soon effectively completed the formulation of a set of "Regulations Governing the Privatization of State-Run Enterprises," which, on completion of the necessary legislative procedure, would have actively set in motion the intended privatizations. At the same time, 19 state-run enterprises were selected as the first targets for privatization. As many as eight of these 19 enterprises were state-run monetary organs. This shows that the decision-making level of the government had indeed made a serious effort to prevent that opening the banking industry for the establishment of new private banks would deal a serious blow to the state-run monetary organs. It is unfortunate, though, that the process initiated by the central government of rapidly turning over state-owned shares in the three state-run commercial banks, and thereby converting them into privately owned banks, was boycotted by the Taiwan provincial assembly. The provincial assembly decided that the government should retain at least 51 percent of the shares in all three commercial banks. This makes it impossible to privatize them, even though the central government was ready to release all the shares it holds in these banks. On receipt of Minister Wang's instructions, the Monetary Affairs Bureau, therefore, abandoned the privatization of the three commercial banks, but merely, aiming in this direction, drew up a "Law Governing the Control and Management of State-Owned Monetary Organs," with the one intention of raising the degree of autonomy of the state-run monetary organs.

As to the formulation of the "Law Governing the Control and Management of State-Owned Monetary Organs," it has had an even more protracted and complex history. As early as 1969, the Ministry of Finance tried to raise the efficiency of operations in Taiwan's state-run banks by establishing a Commission for the Improvement of Banking Business, which in 1970 came up with a "Draft Law Governing the Control and Management of State-Owned Banks," aiming at raising the autonomy of state-run banks. However, in all the 20 years since then, the said draft has not yet been submitted to the Executive Yuan. In the meantime, the Ministry of Finance has continuously engaged specialists to study the draft, and has solicited opinions from various quarters, which has resulted in many changes to the draft. It was not until 1985 that the Executive Yuan set up an Economic Reform Commission, which, to raise the business autonomy and efficiency of operations of state-owned banks, proposed enactment of the "Law Governing the Control and Management of State-Run Banks." The proposal was then sent by the Executive Yuan to the Ministry of Finance for study and further action. After receiving the instruction from the Executive Yuan, the said ministry commissioned the China Economic Research Institute to study the issue and work

out a special plan. In January of 1988, the said institute completed a report entitled "Study of the Law Governing the Control and Management of State-Owned Monetary Organs (Draft)." This report subsequently was submitted to the Ministry of Finance, but three years have since passed and nothing final has yet come out from the Ministry of Finance. It is really a case of "hearing footsteps on the stairs, but seeing no one coming down."

If a bill has undergone repeated studies, its enactment has been urged by various quarters, and if it is forever held up in the Ministry of Finance, there have to be special reasons for that. As we understand, it is mainly due to the extremely complex control and management system that applies to Taiwan's state-owned monetary organs. Jurisdiction over them is exercised not only by the Ministry of Finance, the Central Bank, and the provincial (municipal) finance department (bureau), but also by organs of the will of the people, and by audit, personnel, budget, and comptroller offices, and subjected further to the supervision and interference by 18 other competent authorities. Under the system of a five-branch constitutional government, apart from the Judicial Yuan with its special functions, there is the Executive Yuan, which is of course the highest competent authority over the state-run banks, the Legislative Yuan in charge of budget, the Examination Yuan in charge of personnel, and the Control Yuan in charge of audit. Thus, four of the five yuan are charged with control functions over the state-run banks. Any move to raise the economic efficiency of the state-run banks and to give them greater autonomy in personnel matters, even if approved by the Executive Yuan, would still require coordination with the Examination Yuan. After the budget is approved by the board of directors and reported to the Ministry of Finance for their record, if one were then to stop reporting on it to the Legislative Yuan and the provincial assembly, would they willingly give up their vested powers? Also, if one would want the audit component not to write off bad debts and consider them "operational financial losses of the agency concerned" without pursuing administrative and financial responsibilities—which is after all an unavoidable phenomenon all over the world in the case of bank loans—would the audit components understand that? Would the Examination Yuan be willing to give up its responsibilities? For the purpose of implementing greater autonomy for state-run banks in their business operations, and particularly to enact a law for the control and management of state-run banks (or monetary components), it would be necessary to get rid of the current legal restrictions with regard to personnel, budget, audit, and comptroller affairs. Even if the president of the Executive Yuan would give his support, it would still be necessary to obtain cooperation from the heads of the other three yuan, otherwise the said legislation can never be passed by the Legislative Yuan. If approval of the three yuan presidents has to be lined up, would the minister of finance have the capability to achieve that? The various persons who have occupied the post of finance minister

have indeed had the intention to grant greater autonomy to the state-run banks and to raise their operational efficiency, but after realizing that it is necessary to coordinate action with the three yuan outside the executive system, they all recognized the difficulties and gave up. It is for this reason that the law governing the control and management of state-run banks never reappeared from within the Ministry of Finance for over 20 years. Even Minister Wang Chien-hsuan, nicknamed "the small cannon," saw no better way, after he had familiarized himself with the situation, than to send the draft bill to the All-China Monetary Affairs Conference for further discussion and to await general consensus there, with the hope that pressure from public opinion will bring about support from the other three yuan. Although we are optimistic that this can be achieved, as far as time is concerned, action will do little to save an immediate critical situation. We are therefore suggesting that it is necessary to thoroughly resolve the difficulties encountered by the state-run banks by releasing shares held by the government in those state-run banks which, policy-wise, need not be government-operated and transfer them to private ownership, also to assume a unified stand in the coming banking competition, and to render even stronger assistance to the raising of monetary standards. As to the resolution passed by the provincial assembly to retain a 51 percent majority in the three commercial banks, we must enjoin the provincial government, through coordinated effort of party and government, to reconsider and rescind the previous decision, so as to allow the three commercial banks to become privatized at an early date. Feasibility is in this way by far greater than any of the above-mentioned legislation, and it would, moreover, be more of a fundamental plan of action.

#### Editorial Views Currency Inflow, Outflow Quotas

91CE0459A Taipei CHING-CHI JIH-PAO in Chinese  
16 Mar 91 p 2

[Editorial: "Views on Central Bank Readjustment of Currency Inflow and Outflow Quotas"]

[Text] The Taiwan Central Bank readjusted its nongovernmental currency inflow and outflow quotas yesterday (15 March 1991), raising the currency inflow quota per person from \$2 million to \$3 million a year, and lowering the currency outflow quota per person from \$5 million to \$3 million a year. The Central Bank gave four reasons for this unusual readjustment of its currency inflow and outflow quotas; some have merit and others are farfetched. The following is an analysis of the Central Bank's reasons and our views.

1. The Central Bank points out that it greatly eased its foreign exchange control on 15 July 1987, setting the currency inflow quota per person at \$50,000 a year, and the currency outflow quota per person at \$5 million a year, which left a wide gap between them. This was because Taiwan's daily accounts were showing a steady

huge surplus, there was a large inflow of nongovernmental capital (commonly referred to as hot money), and the money supply was increasing rapidly. To stabilize the money supply, the currency inflow quota was set low. In addition, Taiwan had long practiced strict foreign exchange control. Taiwanese demand for foreign exchange was restricted, there was the possibility that a great demand for currency outflow might arise once control was eased. The central bank had ample foreign exchange reserves to cope with the situation, it set a generous currency outflow quota to meet demand. However, Taiwan's daily accounts surplus had decreased and there was an outflow of nongovernmental capital since 1988, inducing the Central Bank to raise the currency inflow quota four times up to \$2 million, and to raise it to \$3 million with this fifth readjustment, there was still a sizeable gap between the currency inflow quota and the \$5 million currency outflow quota. To prevent foreigners from misunderstanding the Central Bank's gap between inflow and outflow quotas as interfering in the new Taiwan dollar exchange rate. The Central Bank lowered the currency outflow quota by \$2 million to make it the same as the currency inflow quota of \$3 million, to eliminate the criticism that it was using readjustment as a pretext to create an exchange rate deviation. The Central Bank announced in early April 1989 that it would no longer interfere in the exchange rate or currency conversion, we fully approve of its current readjustment to make currency inflow and outflow quotas the same to eliminate this criticism.

2. The Central Bank's sudden lowering of the currency outflow quota by \$2 million, was the first time it has taken such a step since it eased its foreign exchange control. Their explanation was that the Taiwanese had no exceptional demand for foreign exchange over the last three and one-half years. Statistics for the last three and one-half years show that currency outflow per person has actually averaged only \$15,000 to \$26,000 a year. For example in 1990, only four people per 10,000 declared currency outflows of more than \$3 million. As the larger quota seems to have no substantive significance, lowering it by \$2 million would not be inconvenient or have an adverse impact. We cannot agree with this argument: 1. The \$5 million currency outflow quota had no substantive significance, so why lower it? If the currency inflow and outflow quotas must be the same, and there is a net capital outflow in the next three years, what substantive significance will there be in a \$3 million currency inflow quota? Why not raise the currency inflow quota to \$5 million to better display a spirit of foreign exchange freedom? 2. According to Central Bank statistics, although few people had currency outflows exceeding \$3 million in 1990, there were still four per 10,000. Will this not have an adverse impact on the number of those who will have currency outflows of more than \$3 million? The government has recently been calling for strict investigations of excessive use of numbers, how can the Central Bank not be aware of this problem? When taking such actions, the government will

have to bear part of the responsibility for people not observing the law and discipline.

3. Since foreign exchange control was greatly eased in 1987, Taiwan's nongovernmental capital outflow has increased year after year. The net amount of direct foreign investment and other long- and short-term capital outflow in the Central Bank's international balance of payments was \$7.5 billion in 1988, increased to \$8.2 billion in 1989, and rose even more in 1990 to \$10.7 billion. This rapid outflow worried the Central Bank into lowering the currency outflow quota. Such reasoning is absolutely untenable because, under such widespread conditions, what substantive significance is there in lowering the currency outflow quota? In particular, as the Central Bank still has an enormous foreign exchange reserve of over \$70 billion and a huge balance of trade, there is less chance of currency outflow. For instance, if there had not been a \$26.4 billion currency outflow over the last three years, how could the exchange rate between the new Taiwan dollar and the U.S. dollar have remained so stable? Without this currency outflow, the Central Bank would have had to issue over \$700 billion NT (new Taiwan) more of mandatory currency to keep the new Taiwan dollar exchange rate stable. What kind of an impact would this have had on Taiwan's money markets, over which control had already been eased too much in the last three years, not to speak of its even greater impact on inflation? If the Central Bank had not intervened, but had left the exchange rate to be determined by market supply and demand, and the exchange rate between the new Taiwan dollar and the U.S. dollar had risen to about \$20 NT to \$1, how much might Taiwan's economy have declined?

4. To acquire the large amount of funds needed for the "Six-Year National Construction Plan," the Central Bank hoped to slow the currency outflow through a show of policy. This reason is also farfetched. Based on the funding estimate for the "Six-Year National Construction Plan," while excess savings deposits over the next six years will decrease from \$347.5 billion NT in 1990 to \$137.7 billion NT by 1996, there will still be excess savings deposits. Moreover, it is assumed that the savings deposits generated over the next six years will be enough to offset Taiwan's investment needs without a restriction of capital outflow by the Central Bank, not to mention that over \$3 trillion NT in excess savings were accumulated in the last decade. If the Central Bank effectively controls capital outflow and our favorable balance of trade continues, it will either be impossible to keep the exchange rate stable, or there will be a large outflow of mandatory currency issued by the Central Bank, which would have an even more adverse impact.

In summary, the Central Bank's real reason for this readjustment of its currency outflow and inflow quotas is quite simply to avoid U.S. pressure on Taiwan's exchange rate, the first of the above reasons is enough, while the others are superfluous. Moreover, while there might be no substantive significance in raising the currency inflow quota from \$3 million to \$5 million to



avoid criticism or pressure from others, it would more fully reflect a spirit of foreign exchange freedom.

#### **Agreement Reached On Building Fourth Nuclear Plant**

*OW2804084091 Taipei Domestic Service in Mandarin 2300 GMT 26 Apr 91*

[Text] The Executive Yuan held a meeting of relevant high-ranking officials from the Ministry of Economic Affairs, the Ministry of the Interior, and Taiwan Power Company on 26 April. A major agreement was reached at the meeting on the construction of the fourth nuclear power plant.

Economic Minister Hsiao Wan-chang has confirmed reports that the government has decided to begin mounting concrete warm-up activities next week for the power plant's construction, in the hope of drumming up support among the people and motivating them to work for the resumption of construction to meet the pressing need for new sources of power.

#### **Trade Council To Develop European Market**

*OW2904093191 Taipei CNA in English 0820 GMT 29 Apr 91*

[Text] Taipei, April 29 (CNA)—The China External Trade Development Council (CETRA), a semi-official trade promotion body, will adopt a series of measures to help local manufacturers develop European markets, a ranking CETRA official said.

Liu Ting-tsu, CETRA general secretary, said that the European Community with its 12 member countries is the Republic of China's (ROC)'s third largest trading partner, next only to the United States and Japan. Bilateral trade between the ROC and EC totaled US\$18.4 billion in 1990, 14.7 percent of the ROC's total foreign trade.

Liu said, however, that quota restrictions imposed by the EC on foreign goods, the lack of market information and underdeveloped market networks contribute to local manufacturers' weak promotional efforts in that area with great potential.

As the European Community will become a unified market in 1992, new trade barrier will arise, CETRA said. In order to quickly develop European markets and to increase exports to that area, CETRA will cooperate with the Chunghua Economic Research Institute in analyzing five potential industrial markets: electronic parts and components, computers and peripherals, hardware tools, leisure goods and leather goods.

Other measures to help local manufacturers make inroads into the area include:

- Providing local manufacturers with the latest European trade and economic regulations and market information;

- Actively promoting the advantages of Taiwan enterprises over their foreign counterparts through various EC channels;

- Assisting manufacturers to participate in trade exhibitions and other trade promotion activities there; and

- Cooperating with government agencies to improve the training of European languages skills and marketing personnel.

#### **Motorcycle Exports to Mainland Increase**

*OW2904111391 Taipei CNA in English 0809 GMT 29 Apr 91*

[Text] Taipei, April 29 (CNA)—Exports of motorcycles to Mainland China increased sharply in the first quarter of 1991, nearly doubling to 1,000 units per month, a manufacturer said.

Motorcycle manufacturers here are impressed with the great consumer market potential of Mainland China's one billion people. They also want to diversify markets to places other than Taiwan which [as received] the market is already saturated.

An analysis by Sanyang Industrial shows, however, that the fast growth in motorcycle exports has more to do with Taiwanese businessmen and technicians working in Mainland China than with expanding consumer markets there.

Sanyang said that with the end of the period of mobilization for the suppression of the communist rebellion expected soon, the number of Taiwan entrepreneurs traveling to the mainland on business has increased sharply. Since gas is strictly rationed on Mainland China, even those who can afford to buy cars have to buy fuel-efficient motorcycles to get about the vast land, Sanyang added.

#### **Singapore Bank To Open Liaison Office**

*OW0105104491 Taipei CNA in English 0833 GMT 1 May 91*

[Text] Taipei, May 1 (CNA)—The Finance Ministry approved Tuesday an application by Singapore's second largest bank, the United Overseas Bank Ltd. to establish a liaison office here. The International Bank of Singapore Ltd. and the Development Bank of Singapore Ltd. have already opened offices.

The United Overseas Bank was established in 1935 and had assets of US \$13.2 billion by the end of 1989. It is the world's 289th largest bank.

#### **Electronic Company Acquires Factory in England**

*OW0305175091 Taipei CNA in English 1526 GMT 3 May 91*

[Text] London, May 3 (CNA)—A Republic of China (ROC) electronics company has made an investment in

the north of England, a move well received in the region, which has been trying to bring in foreign manufacturers in order to create more jobs.

The Lite-On Corporation of Taipei has successfully acquired a factory in Wansbeck, Northumberland, making it the first ROC company to invest in England's northern region. Contracts were signed on Wednesday for the buyer to formally take over Northern Power Electronics (NPE) Ltd. from its administrative receiver.

The acquisition is important for both the region and NPE in that without a takeover, the plant would soon be liquidated after having gone into receivership earlier this year. The purchase has secured the job of some 70 employees and an extra 80 jobs are expected to be created within the next few years.

John Dersley, the Department of Trade and Industry official responsible for the northeast's inward investment, said: "We are delighted to welcome the first Taiwanese company's investment in the region and are especially pleased it has chosen Wansbeck."

The Lite-On's acquisition represents the first overseas investment in Wansbeck District since 1979.

"Their commitment will safeguard the former activities of NPE and their plans for expansion are also very encouraging," said Ian Swithenbank, leader of Northumberland County Council.

The ROC manufacturer of computer power supplies and monitors plans to invest two million pounds over the next four years.

Power supply systems produced by both the Lite-On and NPE already have a substantial market share in Europe and the new company created after the acquisition, the Lite-On (NPE), will concentrate on the expansion of European sales.

Nearly all of the staff at the plant will remain, with only one personnel from Taiwan added to act as a coordinator between Wansbeck and Taipei.

Lite-On is the world's third largest led maker and employs 6,000 people worldwide with an annual turnover of 425 million U.S. dollars. The company has acquisitions in the United States and plants in Malaysia and Thailand. The value of the company's latest acquisition is not disclosed.

The takeover marks a big success for the northern development company. The semi-governmental development agency has long been pursuing ROC investment, particularly in the electronics sector, into the north of England.

So far four other ROC firms, including Tatung Uk, which now celebrates its tenth year in this country, have set up manufacturing bases in other parts of England, Wales, and Scotland.

#### **Bank of Tokyo Joins Taipei Call-loan Market**

OW0305140191 Taipei CNA in English 0813 GMT  
3 May 91

[Text] Taipei, May 3 (CNA)—The Bank of Tokyo formally became a member of Taipei's Interbank Call-loan Center yesterday, the third Japanese bank to join the local call-loan market.

The move sent the turnover in Japanese currency to a record 11.2 billion yen.

Yen trading began Feb. 8 when Dai-ichi Kangyo Bank became the sole supplier of Japanese currency. The Mitsubishi Bank joined the local call-loan market April 25.

Turnover in U.S. greenbacks totaled 620.9 million U.S. dollars yesterday, a normal level; Deutsche Mark transactions exceeded one million.

#### **Firm To Invest in Indonesian Petroleum Project**

OW0405175091 Taipei CNA in English 1459 GMT  
4 May 91

[Text] Jakarta, May 4 (CNA)—A nonbank financial institution in the Republic of China on Taiwan and a consortium of three Indonesian companies have agreed to finance a 15 million U.S. dollar petroleum base camp on Madura Island, the JAKARTA POST reported Saturday.

The base camp will be used to support 12 drilling companies offshore East Java and Bali, the report said.

"The construction of the base camp is expected to start in May and is scheduled to be completed by September," Hasril Harun, vice-chairman of the Agency for the Supervision of Enterprises in East Java, was quoted by the newspaper as saying after a meeting with the province's governor in Surabaya on Thursday.

"Actually, the construction has already started and the consortium has invested some 700,000 U.S. dollars while waiting for partners," he said.

According to Hasril, the plan is fully supported by the drilling companies as well as the state-owned oil company Pertamina.

### Political Significance of 1991 Elections Questioned

91CM0291A Hong Kong TANGTAI [CONTEMPORARY]  
in Chinese No 62, 2 Feb 91 pp 21-22

[Article by Lei Ching-hsuan (7191 4552 3872): "Observation on the 1991 Election—Impediments to the Growth of Political Groups"]

[Text] Elections are a direct means of promoting the formation of political groups. Exigencies of the election campaign compel every candidate to set up an organization or to seek the support of an existing organization. The larger the electorate, the more important the role played by the organizational component. After the election is over, to get propositions implemented and gain influence on various policies, the successful candidate will have to cooperate hand in hand with other elected delegates who hold the same political views. All these factors lead to the formation of political groups. In the West, it was as a close consequence of elections that political parties achieved their development and consolidation.

### Over the Threshold Toward Formation of Political Parties

In Hong Kong, the formation of political groups has also made fairly rapid progress during the past 10 years. From the pressure groups that had appeared in the 1970's things have now progressed to a phase of political discussions and participation in political affairs, and the threshold has indeed been crossed toward what might be called a "transformation into political parties." In this process of development, elections are providing a strong impetus. However, it cannot be denied that up to today the "personal component" is more important than the "group component" in Hong Kong elections. The best guarantees for a candidate to be elected are still his achievements from individual effort, the degree of his personal prestige, and his relations with the constituency; group support is of rather secondary importance.

However, the 1991 elections could provide strong impetus for the development of political groups. The larger electorate, the broader area involved in the election, the considerable resources needed in the campaign, and considerations of postelection cooperation are all factors that will cause candidates to seek organizational support, while the group to which the candidate belongs can also to some degree have an important influence in guiding the electorate when they cast their votes. On the other hand, the certain composition of the various political groups, which will become evident before and after the election, will help us clarify the relative strength of the different tendencies, and will allow us to foresee, to a certain degree, the coming political direction.

In the 1991 election, although positively furthering the development of political groups, there still exist many restraints in various directions. It is as if an upper limit has been imposed in advance on the development of political groups. Operations of political groups will

therefore be restricted within a limited space. These restraints show mainly in two areas:

First, in the present and future election system. All elections will be on the principle of a "plurality of channels." There will be direct elections by district, but also elections by functional groups, and in future there will also be an election committee, which will be constituted mainly by functional groups. As far as the political groups are concerned, allowing them the official function of competing with each other for power is limited to a certain scope, while the various functional groups, whose membership will be predetermined, will be like a string of independent little kingdoms, with widely differing conditions in each of them. Within these, the political groups will find it extremely difficult to build strength. On the contrary, because of the existence of the functional organizations, it will rather be some social groups, which originally had no political mission at all, that could easily assume political roles, good examples of such being the Federation of Labor Unions and the General Chamber of Commerce. This will actually amount to a direct weakening of the position and influence of political groups. Many candidates will not need to attach themselves to political groups to gain entry into the power system, and many voters will not need the support of political groups to get their own representatives elected; all this greatly limits the space for development of political groups.

### The Year 1997 Will Bring a New Power Center

Second, the year 1997 will bring a new power center, which, institutionally, can be said to be quite unrelated with the three-tier elections to be held in 1991. The district boards and the two urban councils, should they indeed survive, will in future at most be only of an advisory nature, organs without political power and with very limited authority. As to the future Legislative Council, because, as mentioned, the "plurality of channels" procedure will be maintained for this generation of council members, the opportunity for any political group to form a majority party in the legislative council is zero. The situation in the Legislative Council will therefore be that there will be the continued large number of groups and individuals. There is, furthermore, the voting procedure prescribed in Appendix II of the Basic Law, which leaves extremely little room for Legislative Council initiative in the determination of any kind of policy. On the other hand, the future power center will be concentrated in the person of the chief executive, and the chief executive will be elected by a selection committee (first stage) and later by an election committee (start of the second stage). Looking at the relevant procedure outlined in the Basic Law, the committee that will select the chief executive will be guided mainly by the "personal component," and there will be little room for political groups to have any influence in the matter. As to the constitution of the selection and election committees, the position of members of the legislative council is completely insignificant. This way of arranging things amounts to precluding the political groups from the



process of selecting the power center. In the 1991 election, and more so in the 1995 election, the political groups that have developed by leaps and bounds may not necessarily have any influence at all on generating the new power center after 1997. These prospects are, of course, a large impediment to efforts by the political groups to attract talent, to procure resources, and for more extensive work among the electorate.

In view of the setup for future elections and of the future power structure of the government, we can more or less arrive at the following conclusion: There is still some room for political groups to develop, and the 1991 and 1995 elections will provide advantageous conditions for the consolidation of political groups. However, to be "at the helm of the state" is for them completely out of the question. There is also no chance that a Western-style political party government will come into being (i.e. political parties being the main force determining and implementing all policies). In the process of generating the power center, the personal component is most important, and the influence of political groups is correspondingly limited.

#### **The 1991 Election and Deliberation and Formulation of Public Policy**

In addition to choosing those who will wield power, an election has yet another function, namely to debate, deliberate, and formulate public policies. This is due mainly to the fact that during the election campaign the various groups or individuals participating in the election campaign clearly and systematically spell out their particular propositions and political programs and critically assess various policies and issues; the electorate at this time also reacts in a sensitive and vigorous way to all these various ideas. Through continuous debate and extensive deliberations it is possible to come to a sensible conclusion on important public policies, and later, after the election, the successful candidates can, on the basis of all the information that has come forth, proceed to formulate or amend public policy.

In view of the 1991 election, all participating groups and individuals will present their particular political programs, and in their totality these will more or less reflect those issues that are presently the primary concern of the people of Hong Kong, and also show what tendencies are evident in these issues. However, because of the very extensive limitation that will exist in the 1991 elections, we cannot have very high hopes that this kind of debate will take place.

#### **Very Limited Powers of the Delegates**

First, because the powers of elected delegates are in fact very limited, some truly important questions for Hong Kong will in the end receive no great attention in the campaign propaganda, for instance the CPC-Hong Kong relationship, financial policy, and so on. This is possibly so because the candidate shuns the subject or is insufficiently informed, or because he fears to offend some sector of the electorate.

What will be included in the political program will therefore quite possibly be things connected with daily life, but at a very low level of the issue.

Second, in the foreseeable future the power to determine public policy will be firmly in the hands of the Hong Kong Government. Functions of the delegates, whatever their rank, can only be to exercise some superficial criticism here and there. As the voters generally also very clearly understand the limitations of the candidates in this respect, they actually do not demand that the candidates present complete political programs. The function of the political program is mainly for the candidate to ingratiate himself with as large a proportion of the electorate as possible; it is not the basis on which he will be recognized in actual practice. Finally, as some debatable and controversial issues will frequently be suppressed and not mentioned, the views of the various candidates will become very much identical. Some individual candidates may defer to the different situations in their constituencies, or purposely emphasize one or two special propositions in order to attract a certain sector of the electorate, but in general, it will be difficult to delineate the particular features and strengths of the different factions. The situation in the 1991 election is therefore one in which the "personal component" amounts to more than the "group component," but that within the "personal component" various personal qualities will be of primary importance for the candidate (his achievements, degree of prestige, connection with his constituency, record of service), while his propositions and political program will be of secondary importance.

Another problem related to the formation of public policies is that, after the 1991 election, the delegates to the Legislative Council directly elected by the voters will have the majority of seats (39 seats in a total of 60 seats); will it then become possible for these delegates and political groups to gradually gain a dominant position in determining policies and legislative processes? This is highly unlikely in the foreseeable future, because delegates generated by the functional groups will continue to act strictly according to their particular lines of business, and because delegates elected by direct district elections will be divided among themselves in many small groups, incapable of arriving at a unified view and incapable of uniting for action. The government can rely on ex-officio or appointed delegates to occupy one-third of the seats and on its additional persuasion of some of the directly elected delegates in the case of any particular bills to easily ensure its passage. Moreover, since the political groups are as yet in the initial stage of formation, they will not be in a position to render effective assistance to the delegates in the drafting of bills, which will make it even more difficult for the delegates, who will have to rely on only their own individual strength, to exercise any initiative in the legislative process. For this reason, the Legislative Council that will face the executive power after the 1991 election will still be in a passive state. The Hong Kong Government will certainly have to be better than in the past in its persuasion of members of the

Legislative Council and in converting them to the view of the government, but the Legislative Council can certainly never pose any threat for the government.

#### Conclusion

Summing up the three-directional analysis conducted above, we can roughly draw the following conclusions: Although direct elections by districts will be introduced in the 1991 election, and although these elections will thereby have increased importance and become more

generally attractive than what elections had been in the past, the three-tier elections of 1991 can hardly deserve to be called a very important or a crucial election. The 1991 election can only play a very limited role with regard to providing an outline of the future political leader and with regard to the status of the various political groups and the direction that all the various public policies may take. Future political developments in Hong Kong will not assume a brighter aspect because of the holding of the 1991 election.

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